CITY OF WATAUGA, TEXAS

ANNUAL COMPREHENSIVE FINANCIAL REPORT

For Fiscal Year Ending September 30, 2021

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City of Watauga, Texas

Annual Comprehensive Financial Report

For the Fiscal Year Ended
September 30, 2021

Prepared By
The City of Watauga
Finance Department

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City of Watauga, Texas

Annual Comprehensive Financial Report
For the Fiscal Year Ended September 30, 2021
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Introductory Section

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March 14, 2022

TO: Honorable Mayor Arthur L. Miner and
Members of the City Council
Citizens of the City of Watauga, Texas

The City Manager's Office and the Finance Department are pleased to submit the City of Watauga's (the City) Annual Comprehensive Financial Report (ACFR) for the fiscal year ended September 30, 2021. We encourage you to thoroughly read this report and take the opportunity to discuss some of the important items it addresses.

As required by City of Watauga Charter Section 9.06 (C) and various other obligations including, but not limited to, bond covenants, "At the close of each fiscal year, and at such time as it may be deemed necessary, the Council shall cause an independent audit to be made of all accounts of the City by a certified public accountant. Upon completion of the audit, the results thereof in a summary form shall be placed on file in the City Secretary's office as a public record." Financial statements are presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by an independent firm of licensed certified public accountants.

This report provides the City Council, City staff, our citizens, our bondholders and other interested parties with detailed information concerning the financial condition and activities of the City government. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the City. To provide a reasonable basis for making these representations, management of the City of Watauga has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefit, the City of Watauga's comprehensive framework of internal controls has been designed to provide reasonable assurance, rather than absolute assurance, that the financial statements will be free from material misstatements. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

Weaver and Tidwell, L.L.P., a firm of licensed certified public accountants headquartered in Houston, Texas, audited the City of Watauga financial statements. The goal of the independent auditors was to provide reasonable assurance that the financial statements of the City of Watauga for the fiscal year ended September 30, 2021, are free of material misstatements. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Based upon the audit, the independent auditors concluded that there was a reasonable basis for rendering an unmodified ("clean") opinion that the City of Watauga's financial statements for the fiscal year ended September 30, 2021, are fairly presented in conformity with GAAP. The independent auditor's report is located at the front of the financial section of this report. Additionally, the City has an Audit Committee as a subcommittee of the City Council that hears and reviews all recommendations made by the independent auditors

Management's discussion and analysis (MD&A) immediately follows the independent auditor's report and provides a narrative introduction, overview, and analysis of the basic financial statements. This letter of transmittal is designed to complement the MD&A, and the two should be read in conjunction with each other. This report includes all of the funds and account groups of the City. It also includes all activities over which the City is considered to be financially accountable.

The Birdville and the Keller Independent School Districts (ISDs) provide elementary and secondary education services within the City. The City is not financially accountable for the districts and, accordingly, financial data for the school districts are not included in this report.

Profile of the City of Watauga, Texas

The City of Watauga is located in Tarrant County, one of the fastest growing counties in Texas, approximately 10 miles northeast of downtown Fort Worth and 25 miles northwest of downtown Dallas. The City's corporate boundary comprises a total of approximately 4 square miles and is approximately 96% developed. Watauga's population as established by the 2010 U.S. Census was 23,497 and was estimated by the North Central Texas Council of Governments at 23,770 as of January 2021.

The City of Watauga Home Rule charter was adopted on January 19, 1980. The city operates under a Council-Manager form of government, with the Governing Body comprised of eight members including the Mayor. The Governing Body is responsible for adopting ordinances and regulations governing the City, adopting the budget, determining policies, and appointing the City Manager, City Attorney, Municipal Court Judge, City Secretary, Department Heads, as well as members of boards and commissions. The City Manager is responsible to the Governing Body and is responsible for the daily management of the city.

Services Provided

The primary government provides a full range of services including general government administration, police and fire protection, emergency ambulance service, street maintenance, building inspection services, community development, library services, park and recreational activities, and the maintenance and operations of City-owned buildings. The City also has two enterprise funds for operations and management of its Drainage and Water/Sewer Systems. Private contractors, through franchise agreements, provide solid waste and recycling collections and disposal services for the city.

Accounting System and Budgetary Control

The City's accounting records for general government operations are maintained on a modified accrual basis, with the revenues being recorded when available and measurable and expenditures being recorded when the services or goods are received, and the liabilities are incurred. Accounting records for the City's proprietary activities are maintained on an accrual basis.

The accounts of the City are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues and expenditures/expenses. The various funds are grouped by type in the financial statements. As of September 30, 2021, there were twenty-nine (29) funds, of which some are combined for reporting purposes bringing the number to eighteen (18) funds. A description of the major funds and their purpose can be found in Note 1 of the Notes to General Purpose Financial Statements.

The City Charter requires the City Manager to submit a proposed budget for the fiscal year beginning October 1 to the City Council by August 1 each year, and provides for Council adoption of the budget by September 15. Prior to August 1, the City Manager and City department heads prepare expenditure/expense estimates for the remainder of the current fiscal year and for the ensuing fiscal year, and these are compared to estimates of revenue for the same periods. Included in the assessment is the Capital Improvements Projects or CIP program. This program is a five-year plan of major capital programs which may include infrastructure, equipment, buildings, land, or other major expenditures. Adjustments are made to the departmental expenditure/expense estimates as necessary to ensure that the proposed budget is balanced within total estimated income as required by the City Charter.

Following adoption of the budget by the City Council, the City Manager and department heads monitor expenditures/expenses and revenues throughout the year to ensure that the integrity of the budget is maintained. The Charter allows the City Manager to transfer appropriation balances among programs within a department and provides for transfers of appropriation balances from one department to another upon approval of an ordinance by the City Council. The City Council may make amendments to the budget for unforeseen needs or emergencies. The City Manager is required to make monthly reports to the Council concerning the financial condition of the City.

Economic Outlook and Financial Condition

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within which the City of Watauga operates.

Similar to the rest of the nation, the Dallas-Fort Worth Metroplex (DFW) economy was greatly affected by the COVID-19 pandemic. The nation and DFW experienced a severe contraction in the spring of 2020, followed by a slow recovery for the remainder of 2020. However, in 2021, the economy showed robust expansion with gains across all sections. In November 2021, the Federal Reserve Bank of Dallas reported in their December 2021 Dallas-Ft. Worth Economic Indicators update that:

> *Dallas–Fort Worth's economic expansion strengthened in November. Payroll employment rose at a rapid clip, and unemployment dipped. The Dallas and Fort Worth business-cycle indexes advanced further. Consumer spending stayed strong, above prepandemic levels, and mobility improved in the first half of December before declining around the holidays. Apartment leasing was solid, pushing up occupancy and rents, and multifamily construction remained elevated.*
>
> *DFW employment rose an annualized 10.8 percent (33,400 jobs) in November, up from an upwardly revised 6.3 percent (19,800 jobs) in October (Chart 1). Growth was broad based across sectors, with leisure and hospitality and professional and business services leading the way. The November gain puts DFW employment at 1.7 percent (63,900 jobs) above its prepandemic level in February 2020. Employment in the Dallas–Plano–Irving metro division was 2.0 percent and Fort Worth–Arlington 0.8 percent above prepandemic levels. Payrolls in Texas and the U.S. trailed their prepandemic highs by 0.4 percent and 2.6 percent, respectively. Unemployment fell in November, with the jobless rate sliding to 4.3 percent in Dallas, 4.4 percent in Fort Worth and 5.2 percent in Texas.*

Watauga is located in North Central Texas in Northeast Tarrant County, and is surrounded by the cities of Keller, Fort Worth, Haltom City, and North Richland Hills. The economy of the area is based upon diversified manufacturing and service industries, and agriculture. The North Texas Commission reports that DFW is the 4th largest region in the U.S., and has experienced tremendous growth in the past decade, becoming the fastest growing region in the U.S. With its highly diversified economy, Dallas-Ft. Worth has a population of over 7.7 million, a Gross Metropolitan Product of $535 billion, a labor force of over 4.1 million, an 8.1% job growth rate, twenty-five Fortune 500 Firms, and college enrollment of over 367,000. Economic conditions in the Metroplex continue to be influenced by the development and operation of the Dallas-Fort Worth International Airport, which is located only 10 miles to the southeast of Watauga. The airport, which celebrated its 47th anniversary in 2021, covers approximately twenty-seven square miles and represents one of the largest facilities of its kind in the world. The airport provides in excess of 228,000 jobs and contributes over $37 billion to the local economy, and $12.5 billion in payroll. (SOURCE: DFW website www.dfwairport.com Fast Facts.)

The Alliance Texas development in North Fort Worth is a 27,000-acre master-planned, mixed-use community which is home to more than 550 companies, 63,000 plus employees, and is anchored by the inland port known as the Alliance Global Logistics Hub. This area offers a variety of commercial real estate options, industrial space, office space, and retail facilities and had a $100.6 billion impact in North Texas since its inception, with $.66 billion economic impact in 2021. (SOURCE: www.alliancetexas.com Alliance Texas Facts).

Despite the numerous challenges presented by the COVID-19 pandemic, the City's financial position is strong. Total certified taxable value, not including estimated value for property under protest, for all residential and commercial property in the City was approximately $1.6 billion for fiscal year 2021, a 1.5% increase from the previous year. Future development includes a 70-home single family residential development and additional commercial developments are in the planning phase. The City's general fund, economic development corporation fund, and crime control sales tax funds experienced sales tax increases during fiscal year 2021, resulting in a 16% increase in comparison to fiscal year 2020. However, due to a failed ballot measure in November 2020, the street maintenance ¼ cent was abolished on January 1, 2021 and the loss of sales tax receipts for the street maintenance ¼ cent totaled $523,506 for fiscal year 2021 in the Street Maintenance Fund. Although this loss was impactful, total sales tax receipts for all funds came in at $6.2 million in fiscal year 2021, a 5%, or $315,129 increase in collections in comparison to the previous fiscal year.

Future Economic Outlook

Through November 2021 (Fiscal Year 2022) sales taxes have increased by 14% compared to the same period in Fiscal Year 2021. The increase is attributable to economic recovery, new businesses in Watauga, and the increase of on-line sales tax receipts. Additionally, in May 2021, voters approved a ballot measure that authorized the quarter cent sales tax that was previously dedicated for street maintenance to the City's General Fund for general government purposes. This is anticipated to bring in $814,000 to the General Fund.

For Fiscal Year 2022, property valuations increased 7% from prior year. According to the Emerging Trends in Real Estate for 2021 report from PricewaterhouseCoopers and the Urban Land Institute, the Dallas-Ft.Worth Metroplex ranked as the fourth highest market for overall real estate prospects in 2021 out of 80 other cities nationwide.

Watauga's economic future is not without challenges. New development in Watauga is expected to be minimal as the city is approximately 96% developed. The city has entered a phase where revenue growth will be slow, while requests for services and infrastructure replacement for streets and utility needs will increase. The near build-out status of the city requires a strategic approach to attracting new development and revitalization. The City Council has adopted Strategic Initiatives that will enable the city to move in a positive direction. These strategic initiatives include maintaining the financial strength of the City, developing a sustainable economic development effort through business retention and attraction efforts, and strengthening future planning.

The economy is showing signs of recovery from the effects of the COVID-19 pandemic, and the economic outlook is strong. However, the harmful actions of the Texas State Legislature in passing City-related bills during the 2019 session had a long-term and significant impact on the City's revenues. These include Property Tax legislation, the banning of Photographic Enforcement cameras, Cable and Telecom Franchise Fee reductions, and various unfunded mandates. The city is looking at other sources of revenues to replace those lost due to the passing of these bills, as well as the reduction of expenditures through the evaluation of programs and the leveraging of technology for more efficient operations.

Long-Term Financial Planning

The City Council has adopted a series of financial standards and policies for operating and debt management. Management of the City has made every effort to comply with these standards and policies. The City has maintained its fund balances to ensure that the needed resources are available to provide for current operations and unexpected situations. Fiscal policies provide for the General Fund reserve to not go below 25% of the General Fund expenditure budget. At the end of the current year, the City was in compliance with this policy with the reserve at 47% of next year's budgeted expenditures.

The City continued the use of its long-term financial planning tools in FY2022 and beyond. These tools include:

1) A 5-year Capital Improvement Plan that details current and future infrastructure projects;
2) A Multi-year Capital Outlay Plan that provides a 5-year plan to identify timing of replacement and sources of funding for major equipment, vehicles, and technology City-wide;
3) A Personnel Improvement Plan to identify personnel staffing needs and year of possible funding;
4) A Multi-year Financial Forecast which forecasts revenue trends and expenditure estimates in a 5-year Plan; and
5) A Succession Plan to ensure continuity of operations in the future for all positions, promote a defined path for employees desiring to move into higher level positions, and ensure that training and resources are in place.

Such strategic planning has allowed the City Council to fund several major infrastructure upgrades, park enhancements, capital purchases, and personnel needs in a systematic manner while considering the full impact to the operating budget and tax requirements. The City of Watauga intends to continue with an orderly and well-planned program of community service in FY2022 and subsequent years. Working within the framework of current financial constraints, the City will focus on infrastructure needs such as upgrades/maintenance of the water/sewer system, street projects, drainage projects and revitalization/redevelopment projects in the upcoming fiscal year and beyond.

Standard & Poor's Rating Services, a subsidiary of the McGraw-Hill Companies, Inc. rates the City's general obligation debt at AA. Moody's Investor Service, Inc. rates the general obligation debt at Aa3. Additional information about the rating agencies or the significance of the ratings provided may be obtained from each agency's web site.

Major Initiatives

The City has completed several projects in the past year and has many others underway. The City believes it is critical that the street, water, wastewater, and drainage systems are properly maintained and systematically upgraded. The City's 5-year Capital Improvement Plan (CIP) addresses the infrastructure needs throughout the City. Over the past several years, water and wastewater improvement projects have been completed and more projects are underway. These projects include replacement of aging wastewater lines throughout the city that have a high amount of inflow and infiltration. Major street and drainage projects that are in progress include Whitley Road, a major thoroughfare in the City that was planned as a multi-year project and will be completed in five phases. The City was recently awarded grant funding from Tarrant County that will provide partial funding for the Whitley Road Phase 4 project.

The City's Parks Master Plan focuses on improving the quality of life for the community, including park amenities and upgrades, trails, and facilities such as the expansion of the Senior Center that was completed in 2017. Projects completed in fiscal year 2021 include the replacement of park lighting at Capp Smith Park, construction of a Splash Pad (partially funded by the Watauga Economic Development Corporation), and the completion of Phase Two of the Whitley Road Street Project. Other projects funded by the Watauga Economic Development Corporation include the installation of digital signage throughout the City, and construction of a food business park that is designed to spur economic development and entrepreneurship in the City.

The Green Ribbon Beautification Project for Highway 377 continues and will help to improve the image of Watauga as well as properties along the highway. The City has been awarded its third Texas Department of Transportation (TXDOT) Green Ribbon Landscape grant to beautify the western portion of the Denton Highway right-of-way.

Awards and Acknowledgements.

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Watauga for its Annual Comprehensive Financial Report for the fiscal year ended September 30, 2020. The Certificate of Achievement is a prestigious national award-recognizing conformance with the highest standard for preparation of state and local government financial reports. In order to receive the Certificate of Achievement, a government unit must publish an easily readable and efficiently organized Annual Comprehensive Financial Report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. The City of Watauga has received a Certificate of Achievement for the last thirty-four consecutive years. We believe that our current Annual Comprehensive Financial Report continues to meet the Certificate of Achievement Program's requirements, and we are submitting it to GFOA for review.

The City of Watauga also received the GFOA's Distinguished Budget Presentation Award for our annual budget document for the fiscal year beginning October 1, 2020. This is the thirty-first consecutive year that the city has received this prestigious award. In order to qualify for the Distinguished Budget Presentation Award, the City's budget document was judged to be proficient in several categories, including as a policy document, a financial plan, an operations guide, and a communications device.

In conclusion, we would like to thank the City Council for their continued leadership and support in planning and conducting the financial operations of our city in a responsible and efficient manner. Appreciation is expressed to the City employees throughout the organization who have been instrumental in the successful completion of this Annual Comprehensive Financial Report. And finally, we wish to express our appreciation to each City employee for his or her loyalty and dedication, as demonstrated during this past fiscal year.

Respectfully submitted,

Joshua Jones
City Manager

Sandra Gibson, CGFO, CGFM
Director of Finance

City of Watauga, Texas

Principal Officials
As of September 30, 2021

ELECTED OFFICIALS

Arthur L. Miner	Mayor
Tom Snyder	Council Member - Place 2
Patrick Shelbourne	Council Member - Place 1
Lovie Downey	Council Member - Place 3
Andrew Neal	Mayor Pro Tem, Council Member - Place 4
Vacant	Council Member - Place 5
Mark Taylor	Council Member - Place 6
Jan Hill	Council Member - Place 7

APPOINTED OFFICIALS

Joshua Jones	City Manager (Effective January 2022)
Robert Parker	Interim City Manager/Police Chief
Russell, Rodriguez, Hyde, & Bullock, LLP	City Attorney
Paul Hackleman	Public Works Director
Lana Ewell	Library Director
Chad Stephens	Interim Parks and Community Services Director
Shawn Fannan	Fire Chief, Deputy City Manager
Sandra Gibson	Director of Finance

Government Finance Officers Association

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Watauga
Texas

For its Annual Comprehensive
Financial Report
For the Fiscal Year Ended

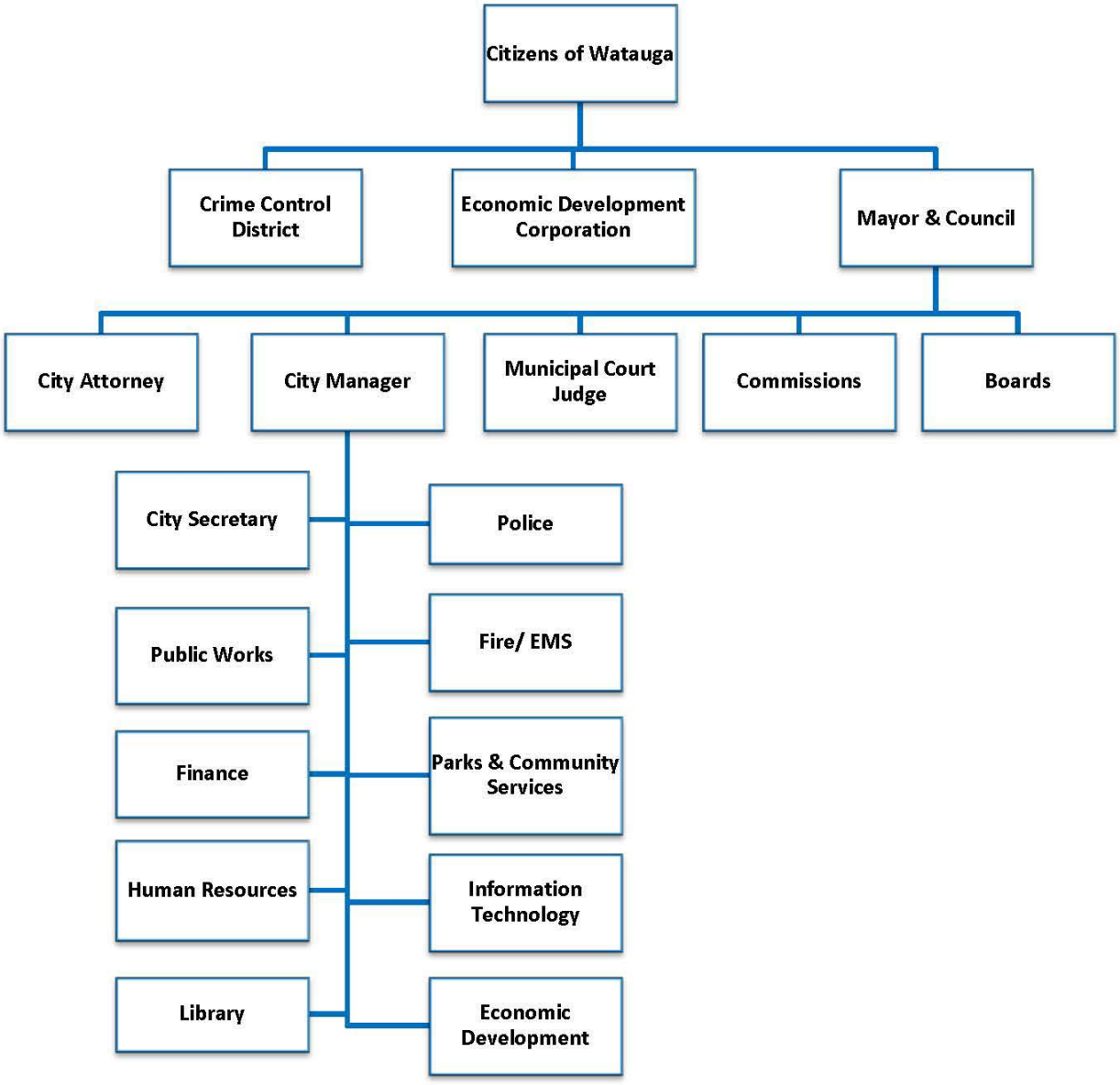
September 30, 2020

Christopher P. Morrill

Executive Director/CEO

Organizational Chart

City of Watauga



Financial Section

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Independent Auditor's Report

To the Honorable Mayor and
Members of City Council
City of Watauga, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund and the aggregate remaining fund information of the City of Watauga, Texas (the "City") as of and for the year ended September 30, 2021, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

To the Honorable Mayor and
Members of City Council
City of Watauga, Texas

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City, as of September 30, 2021, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and pension and OPEB information, as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, combining and individual fund financial statements and schedules and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations (CRF) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance) and is not a required part of the basic financial statements.

The combining and individual fund statements and schedules and the Schedule of Expenditures of Federal Awards are the responsibility of management and are derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

To the Honorable Mayor and
Members of City Council
City of Watauga, Texas

The information in the introductory section and statistical section listed in the foregoing table of contents has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 14, 2022, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Weaver and Tidwell, L.L.P.

WEAVER AND TIDWELL, L.L.P.

Fort Worth, Texas
March 14, 2022

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CITY OF WATAUGA, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended September 30, 2021

On behalf of City Council, we, as management of the City of Watauga, offer readers of the city's financial statements this narrative overview and analysis of the financial activities and financial position of the city for the fiscal year ended September 30, 2021. In the broadest context, the financial well-being of a government lies in the underlying wealth and willingness of its citizens and property owners to pay adequate taxes combined with the vision of the government's elected and appointed leadership to spend those taxes strategically so that the City's tax base, service levels, City assets, and the City's desirability will be maintained not just for the current year but well into the future.

Financial reporting is limited in its ability to provide the "big picture" but rather focus on financial position and changes in financial position. In other words, are revenues and/or expenditures higher or lower than the previous year? Have net position or fund balances of the government been maintained? Readers are encouraged to consider the information presented here in conjunction with our Letter of Transmittal and the Statistical Section which can be found on pages v-xi and pages 99-120 of this report respectively. Also, you may review additional information on the annual budget and other community facts and figures on the City's website at www.cowtx.org.

Please note that the Report of Independent Auditors describes the auditor's association with the various sections of this report and that all of the additional information from the website and other City sources is unaudited.

FINANCIAL HIGHLIGHTS

- At September 30, 2021, Government-Wide Total Assets and Deferred Outflows of Resources exceeded Total Liabilities and Deferred Inflows of Resources by $80,217,242 (Net position). The vast majority of the City's net position of $67,573,019 (84.2%) is net investment in capital assets and most capital assets in a government do not directly generate revenue nor can they be sold to generate liquid capital. The net position restricted for specific purposes totaled $5,296,207 (6.6%). The remaining $7,348,016 (9.2%) of net position is unrestricted and may be used to meet the government's ongoing obligations to citizens and creditors in accordance with the City's fund designation and fiscal policies. Unrestricted net position increased $3,360,852 from the prior year.
- The City's total capital assets (net of accumulated depreciation) increased by $5,112,081 which is primarily attributed to current year capital improvement projects and other asset additions exceeding depreciation expense and asset retirements.
- The City's total long-term debt increased by $1,364,788, or 2.9%, primarily due to an issuance of Combination Tax and Limited Pledge Revenue Certificates of Obligation in the amount of $4,540,000 for capital improvements, less scheduled principal payments.
- The City's long-term liabilities increased $959,560, or 1.8%, during the fiscal year primarily due to the issuance of debt as discussed in the preceding paragraph. This year, the City experienced a decrease in the net pension liability and net OPEB liability. The accounting standards for pensions will reflect more volatility in the amount of the liability recorded in the financial statements from year to year.

- Governmental activities realized an increase in total net position of $2,635,651 and business-type activities realized an increase in total net position of $2,037,896 bringing the total increase in net position for the City to $4,673,547.
- Total Governmental Fund ending fund balance was $23,644,052, an increase of $1,526,132 in comparison to the prior year. This was due primarily to an increase in General Fund balance primarily due to increase in sales tax revenues, the Coronavirus Aid, Relief, and Economic Security (CARES) grant funding that was used to pay for pandemic related expenditures, and lower than anticipated expenses due to salary savings. The Unassigned General Fund balance increased $1,695,797 over prior year and at year-end the balance was $7,035,161 or 55% of total Fiscal Year 2021 General Fund expenditures.

OVERVIEW OF THE FINANCIAL STATEMENTS

We intend this discussion and analysis to serve as an introduction to the City of Watauga's basic financial statements. The City's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements - The government-wide financial statements are designed to provide readers with a broad overview of the City of Watauga's finances, in a manner similar to a private-sector business.

The Statement of Net Position presents information on all of the City's assets, deferred outflows of resources, liabilities and deferred inflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating. The Statement of Activities presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. uncollected taxes and earned but unused compensated absences).

Both of the government-wide financial statements distinguish functions of the City of Watauga that are 1) principally supported by taxes and intergovernmental revenues (governmental activities), and 2) functions that are intended to recover all or a significant portion of their costs through their user fees and charges (proprietary or business-type activities). The governmental activities of the City include General Government, Police, Fire/EMS, Culture and Recreation, and Public Works. The proprietary or business-type activities of the City include Water/Sewer and Drainage System activities.

The government-wide financial statements include not only the City of Watauga itself (known as the primary government), but also include the Watauga Economic Development Corporation (WEDC) and the Watauga Crime Control and Prevention District (WCCPD), which are legally separate but financially accountable to the City. A blended presentation is used to report the financial information of these component units. The financial information for the individual component units is available from the City.

The government-wide financial statements can be found on pages 23-24 of this report.

Fund Financial Statements - A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: (1) governmental, (2) proprietary, and (3) internal service.

Governmental Funds - Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the Governmental Fund Balance Sheet and the governmental fund Statement of Revenues, Expenditures, and Changes in Fund Balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains fifteen individual governmental funds. Information is presented separately in the Governmental Fund Balance Sheet and in the governmental funds Statement of Revenues, Expenditures, and Changes in Fund Balances for the General, Debt Service, Capital Projects and CARES Act Funds, which are considered to be major funds. Data from the other eleven governmental funds are combined into a single, aggregated presentation.

The City adopts an annual appropriated budget. Budgetary comparison schedules have been provided for the general fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 27-30 of this report.

Proprietary Funds - The City maintains two major proprietary or enterprise funds. The enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its Water/Sewer and Drainage activities. Internal Service Funds are an accounting device used to accumulate and allocate cost for some of its equipment replacement. Because these services predominately benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for Water and Sewer and Drainage Utility, both of which are considered to be major funds of the City. The Internal Service Fund is a single presentation in the proprietary fund financial statements.

The basic proprietary fund financial statements can be found on pages 33-36 of this report.

Notes to the financial statements - The notes provide additional information that is essential to a full understanding of the date provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 37-68 of this report.

Other Information. In addition to the basic financial statements and accompanying notes, this report presents certain required supplementary information concerning the City's progress in funding its obligation to provide pension and other post-employment benefits to its employees. Required Supplementary Information (RSI) can be found on pages 71-75 of this report.

The combining statements referred to earlier in connection with non-major governmental funds and individual fund statements are presented immediately following the required supplementary information on pensions. Combining and individual fund statements and supporting schedules can be found on pages 82-95 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Total Assets of the City are $140,976,687. Capital Assets, net of depreciation, represent the largest portion of the City's assets ($91,384,057 or 64.8%) and include land, buildings, improvements, equipment, infrastructure, and construction-in-progress. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending.

As noted earlier, Net Position may serve as a useful indicator of a government's financial position. As of September 30, 2021, the City's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by $80,217,242 (Net Position).

At year end, the City's Net Investment in Capital Assets was $67,573,019. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other resources, since the capital assets themselves cannot be used to liquidate these liabilities.

Restricted net position is $5,296,207 or 6.6% of total net position and represents resources that are subject to external restrictions on how they may be used. The remaining balance of total net position is unrestricted ($7,348,016 or 9.2%) and may be used to meet the government's ongoing obligations to citizens and creditors.

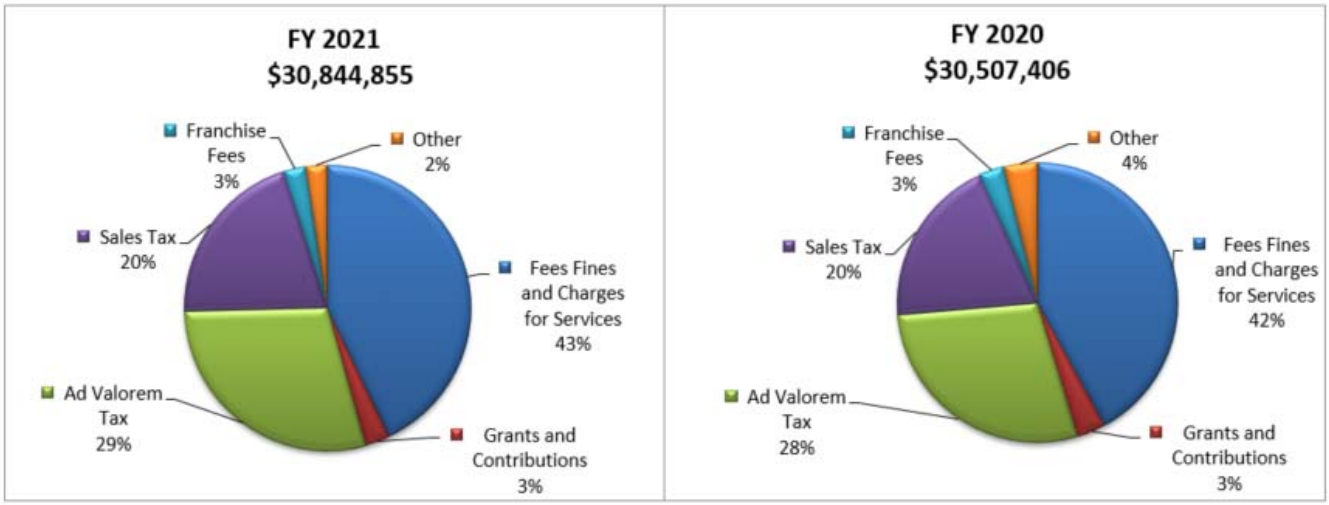
Overall, there was an increase of $4,673,547 in total net position during the fiscal year as a result of the City's operations. Governmental activities showed an increase of $2,635,651, while Business-type activities showed an increase of $2,037,896 as a result of the City's operations.

Condensed Statement of Net Position

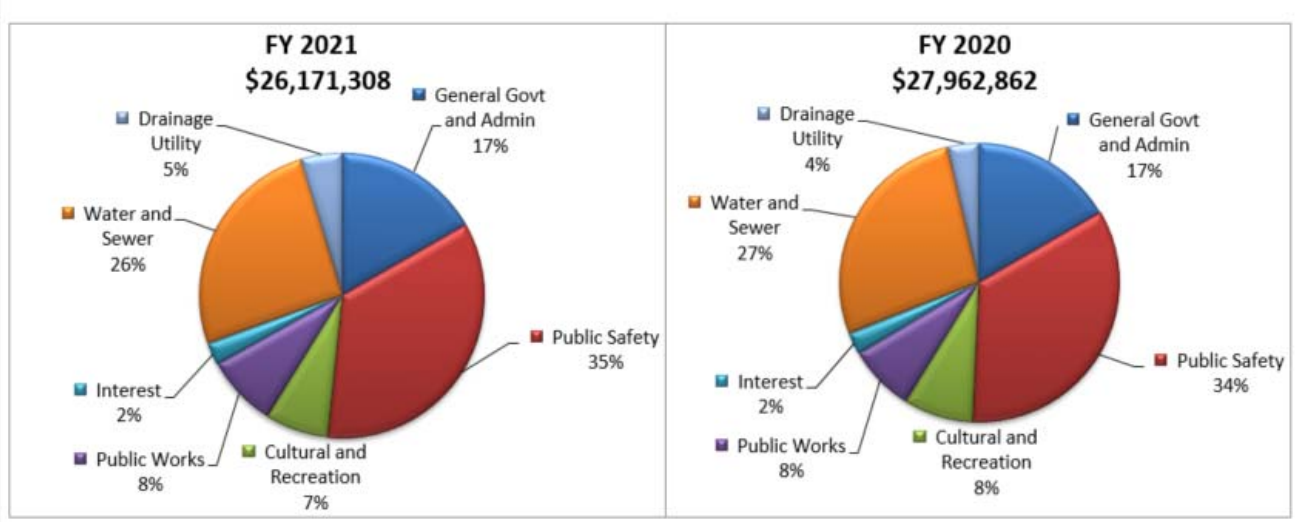
	Governmental Activities		Business-type Activities		Total	
	2021	2020	2021	2020	2021	2020
Current and other assets	$ 30,970,069	$ 26,346,046	$ 18,622,561	$ 19,883,350	$ 49,592,630	$ 46,229,396
Capital assets	52,327,563	49,096,652	39,056,494	37,175,324	91,384,057	86,271,976
Total assets	83,297,632	75,442,698	57,679,055	57,058,674	140,976,687	132,501,372
Deferred outflows of resources	1,311,689	1,447,324	249,847	275,682	1,561,536	1,723,006
Long-term liabilities outstanding	31,924,340	29,767,951	22,143,103	23,339,932	54,067,443	53,107,883
Other liabilities	5,175,527	2,138,957	1,475,322	1,701,023	6,650,849	3,839,980
Total liabilities	37,099,867	31,906,908	23,618,425	25,040,955	60,718,292	56,947,863
Deferred inflows of resources	1,346,259	1,455,570	256,430	277,250	1,602,689	1,732,820
Net position:						
Net investment in capital assets	39,716,524	39,121,348	27,856,495	27,276,699	67,573,019	66,398,047
Restricted	5,296,207	5,158,484	-	-	5,296,207	5,158,484
Unrestricted	1,150,464	(752,288)	6,197,552	4,739,452	7,348,016	3,987,164
Total net position	$ 46,163,195	$ 43,527,544	$ 34,054,047	$ 32,016,151	$ 80,217,242	$ 75,543,695

As of September 30, 2021, the City is able to report positive balances in all three categories of net position, for the government as a whole, as well as for its separate governmental and business-type activities.

Changes in Net Position - Revenue by Major Category
Governmental and Business-Type Activities (excluding transfers)



Changes in Net Position - Expense by Major Category
Governmental and Business-Type Activities (excluding transfers)



Governmental activities. Governmental activities experienced a total increase in net position of $2,635,651 or a 6% increase from prior year. Key elements of activity changes from the prior year are as follows:

- Total revenues increased by $564,521 or 2.9% from the prior year. In general revenues, property taxes increased $287,509 due to an increase in assessed property valuations. Grant revenues remained flat and include CARES grant funding and the SAFER grant to fund firefighter/paramedic positions. Sales tax revenues increased by $324,320, or 5.4%, and interest income decreased by $230,017 due to market declines. Fees, fines and services revenues increased by $388,154 over prior year, primarily due to an increase in permit fees related to construction activity and an increase in ambulance revenue. Additionally, general fund services revenue increases were realized due to resuming some program activities at the community center that had been cancelled last year due to pandemic related restrictions.
- Expenses decreased by $1,114,238 or 5.8% These decreases are due in large part to personnel savings as a result of position being unfunded or not filled during the fiscal year. Culture and recreation expenses decreased by $384,207, or 17% due to a decrease in staffing that resulted as certain programs were unfunded in the 2021 budget as a cost saving measure. Additionally, Public safety expenditures decreased by $397,498, or 4.2% due to positions not funded during the year. Other general cost decreases were realized due to the limitations on certain operations during the fiscal year due to the pandemic.

Business-type activities - Business-type activities increased the City's net position by $2,037,896, or 6.4% increase from the prior year. Significant changes from the prior year include:

- Total revenues decreased by $226,772 due to decreased return on investments in comparison to prior year.
- Total expenses decreased by $677,316. This was due to a decrease in wastewater treatment costs and a decrease in water purchase costs due to lower consumption in comparison to prior year

The following table provides a summary of the City's operations for year ended September 30, 2021 with comparative totals for year ended September 30, 2020.

Condensed Statement of Change in Net Position

	Governmental Activities		Business-type Activities		Total	
Revenues	2021	2020	2021	2020	2021	2020
Program revenues						
Fees, fines and charges for services	$ 2,702,434	$ 2,314,280	$ 10,535,764	$ 10,503,373	$ 13,238,198	$ 12,817,653
Operating grant and contributions	848,051	852,735	-	-	848,051	852,735
Capital grants and contributions	-	156,855	-	-	-	156,855
General revenues						
Property Taxes	8,926,186	8,638,677	-	-	8,926,186	8,638,677
Sales taxes	6,306,657	5,982,337	-	-	6,306,657	5,982,337
Franchise taxes	783,430	881,836	-	-	783,430	881,836
Payment in lieu of taxes	503,500	503,500	-	-	503,500	503,500
Penalties and interest	43,240	45,597	-	-	43,240	45,597
Interest on investments	44,353	274,370	78,637	305,578	122,990	579,948
Miscellaneous	69,825	12,968	2,778	35,000	72,603	47,968
Total revenues	20,227,676	19,663,155	10,617,179	10,843,951	30,844,855	30,507,106
Expenses						
General government	4,384,354	4,652,993	-	-	4,384,354	4,652,993
Public safety	9,136,711	9,534,209	-	-	9,136,711	9,534,209
Culture and recreation	1,878,361	2,262,568	-	-	1,878,361	2,262,568
Public works	2,131,872	2,156,500	-	-	2,131,872	2,156,500
Interest on long-term debt	653,227	692,493	-	-	653,227	692,493
Water and sewer	-	-	6,770,160	7,638,966	6,770,160	7,638,966
Drainage utility	-	-	1,216,623	1,025,133	1,216,623	1,025,133
Total expenses	18,184,525	19,298,763	7,986,783	8,664,099	26,171,308	27,962,862
Increase (decrease) in net position before transfers	2,043,151	364,392	2,630,396	2,179,852	4,673,547	2,544,244
Transfers	592,500	503,500	(592,500)	(503,500)	-	-
Increase (decrease) in net position after transfers	2,635,651	867,892	2,037,896	1,676,352	4,673,547	2,544,244
Net position - beginning of year	43,527,544	42,659,652	32,016,151	30,339,799	75,543,695	72,999,451
Net position - end of year	$ 46,163,195	$ 43,527,544	$ 34,054,047	$ 32,016,151	$ 80,217,242	$ 75,543,695

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance related legal requirements.

Governmental funds - The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of expendable resources. Such information is useful in assessing the City's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a City's net resources available for spending at the end of the fiscal year.

At the end of the current fiscal year, the City of Watauga's governmental funds reported a combined ending fund balance of $23,644,052, which is an increase of $1,526,132 from the prior year. Unassigned fund balance is $7,011,165 or 29.7% of the total governmental fund balance and is available for spending at the government's discretion. The remainder of fund balance is in the form of 1) non-spendable for inventories ($17,542) and prepaid items ($7,619), 2) restricted for capital acquisitions and contractual obligations ($11,287,523), retirement of fund indebtedness ($758,689), culture and recreation ($1,686,286), public works ($1,584,190) and public safety ($1,291,038). Some highlights are listed below:

- The general fund is the primary operating fund of the City. The fund balance has increased by a net $1,695,797 over the prior year, to $7,035,161. This was due primarily to increased sales tax revenue recovery this fiscal year, CARES act grant funding that provided relief on reimbursements for pandemic related expenditures, and salary savings due to decreased staffing levels during the year. Additionally, a decrease in programming at the Community Center contributed to a reduction in expenses in the recreation department.
- The G.O. Debt Service fund balance decreased by $6,379 over the prior year, to $758,689.as a result of a planned draw down of fund balance.
- The Capital Projects fund saw a decrease of $298,086 in ending fund balance primarily due to capital outlay in the amount of $5,035,790 for capital equipment, street improvements, park projects, and various other capital projects, offset by the issuance of debt in the amount of $4,540,000 for the Certificates of Obligation, Series 2021. Fund balance at the end of the year is $11,248,863.
- The non-major governmental funds showed a combined $134,800 increase in fund balance from the prior year. In the sales tax funds, fund balance increased by $279,267 in the Crime Control and Prevention District and by $388,920 in the WEDC Sales Tax Fund due to a combination of the sales tax revenue recovery and expenditures coming in lower than budget for both of these special revenue funds. The Street Maintenance Sales Tax Fund showed a fund balance decrease of $273,752 due to the discontinuance of the ¼ cent sales tax as a result of a ballot measure that abolished this sales tax effective January 1, 2021. The Traffic Safety Fund had a planned drawdown of fund balance this fiscal year and decreased by $319,658. This was due to legislation that banned the continuation of photographic traffic enforcement.

Proprietary funds - The City's proprietary fund statements provide the same type of information found in the government-wide financial statements, but in more detail.

The unrestricted net position of the respective proprietary funds are Water/Sewer at $3,197,711 and Drainage Utility at $2,999,841. The proprietary funds had a combined net position increase of $2,013,813 as a result of operations. The Water and Sewer fund had an increase in net position of $1,737,281, while the Drainage Utility fund had a net position increase of $276,532 as a result of operations. The total change in net position of business-type activities is $2,037,896 after adjustment of internal service fund activities relating to enterprise funds in the amount of $24,083.

General Fund Budgetary Highlights – In July, 2021, City Council took action to amend the budget based on staff's revised estimates of revenues and expenditures. The original budget for sales tax was based on expected declines due to the COVID-19 financial impact. However, sales tax recovery was stronger than anticipated and a budget amendment was made to increase sales tax revenues by 10%, or $305,000. Actual revenues exceeded management's amended estimate of the General Fund revenues by $430,572 due primarily to sales tax exceeding expectations and an increase in permit fees due to a school renovation project during the fiscal year. Expenditures were $1,097,714 less than budget due to CARES act funding of pandemic related expenses, reductions in personnel costs, and spending reductions across all departments. The general fund balance increased from $5,339,364 to $7,035,161, or to 55% of operating expenditures.

CAPITAL ASSETS

The City's investment in capital assets for its governmental and business type activities as of September 30, 2021, amount to $91,384,057 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery and equipment, infrastructure and construction in progress. The total increase in the City's capital asset investment for the current fiscal year was $5,112,071, or 6%. This was primarily due to substantial progress made on the Whitley Road street and water/sewer project Phase 3 and 4, the completion of the splash pad project at Capp Smith Park and the purchase of various capital outlay items.

Schedule of Capital Assets (Net of Accumulated Depreciation)

	Governmental Activities		Business-type Activities		Total	
	2021	2020	2021	2020	2021	2020
Land	$ 19,019,600	$ 19,019,600	$ 91,000	$ 91,000	$ 19,110,600	$ 19,110,600
Construction in progress	3,263,987	1,139,022	3,806,772	6,763,992	7,070,759	7,903,014
Buildings and Improvements	15,299,309	15,658,339	1,972,791	2,036,466	17,272,100	17,694,805
Improvements other than buildings	674,776	662,343	-	-	674,776	662,343
Equipment	6,241,698	4,132,469	1,097,935	922,176	7,339,633	5,054,645
Drainage improvements	-	-	10,235,849	8,525,602	10,235,849	8,525,602
Infrastructure	7,828,193	8,484,879	-	-	7,828,193	8,484,879
Waterworks and sanitary sewer system	-	-	21,852,147	18,836,088	21,852,147	18,836,088
Total capital assets	$ 52,327,563	$ 49,096,652	$ 39,056,494	$ 37,175,324	$ 91,384,057	$ 86,271,976

Major capital asset events during the current fiscal year included:

- Projects that were included in Construction in Progress in FY2020 which were completed this fiscal year include the following:
    - The Splashpad project at Capp Smith Park in the amount of $1,293,375
    - Phase two of Whitley Road, a major thoroughfare in the city in the amount of $4,573,479
    - Capital outlay for the Fire Department ambulance in the amount of $361,373
    - The Starnes Road Waterline Replacement Project in the amount of $971,310

- New Projects that began in FY2020-2021 and were added to Construction in Progress included:

    - Park Projects to include the design of Park Vista Park and Arcadia Trail added $55,292 to Construction in Progress
    - The Hightower Drive Rain Garden Project, a stormwater project which will be partially funded by a North Central Texas Council of Governments Grant, added $22,600 to Construction in Progress

- Prior Year Projects that continued this year and increased the Construction in Progress included:

    - The Meadowlark Lane East water and sewer line improvements increased by $1,302,229, bringing the total CIP for the project to $1,583,642
    - Whitley Road, Phase Three continued with an increase of $2,088,858, bringing the total CIP for the project to $2,402,257 and Whitley Road, Phase Four
    - The Fire Station remodel project continued with an increase of $743,927, bringing the total CIP for the project to $782,927
    - Water and Wastewater projects increased $227,960, bringing the total CIP for the project to $745,040
    - The Bowie Street project added $352,935, bringing the total in CIP to $376,135
    - Sanitary Sewer Evaluation Project added $32,286, bringing the CIP total to $224,688
    - The business incubator project increased by $10,400, bringing the total CIP to $43,550
      Wastewater - Phase Two (North) did not have activity this fiscal year and the total CIP for the project is $197,909

- Other projects that were completed in FY2021 for a total of $2,345,426 included:

    - Parks projects to include lighting at Capp Smith Park in the amount of $635,450, and improvements for the Capp Smith spillway in the amount of $27,150
    - Infrastructure improvements (street overlays, sidewalks) in the amount of $490,158
    - Information Technology projects in the amount of $252,184 to include computer replacements city-wide, server replacements, and computers at the Library
    - Roof replacement at the Library facility in the amount of $69,525
    - Other Capital Outlay replacements in the amount of $870,959 to include police vehicles, public works vehicles and large equipment purchases, parks equipment purchases and other capital items such as UV Lighting at City Hall, Library HVAC unit replacements and electronic LED monument signs.

Additional information on the City's capital assets can be found in Note 4 of this report.

DEBT ADMINISTRATION

Long-term debt - At the end of the current fiscal year, the City had total debt outstanding of $42,735,000. This entire amount comprises debt backed by the full faith and credit of the government.

Other debt includes $173,371 owed to the City of North Richland Hills for the City's portion of a joint agreement on street repair, and $3,119,472 in Compensated Absences for employee earned, but unpaid, vacation and sick leave.

During the current fiscal year, the City's total debt increased by $1,364,788, which was due to an issuance of $4,540,000 Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2021, offset by regularly scheduled debt service payments and interest savings that resulted by the issuance of $1,715,000 in General Obligation Refunding Bonds.

Standard & Poor's Rating Services, a subsidiary of the McGraw-Hill Companies, Inc. rates the City's general obligation debt at AA. In their 2021 Credit Rating, S&P cited a healthy tax base growth, strong financial management with consistent budget monitoring and long-term financial planning to address future budgetary challenges. Moody's Investor Service, Inc. rates the general obligation debt at Aa3.

Schedule of Outstanding Debt

	Governmental Activities		Business-type Activities		Total	
	2021	2020	2021	2020	2021	2020
General Obligation Bonds	$ 960,000	$ 585,000	$ 1,140,000	$ -	$ 2,100,000	$ 585,000
Certificates of Obligation	21,395,000	19,480,000	18,865,000	20,965,000	40,260,000	40,445,000
Tax Notes	375,000	450,000	-	-	375,000	450,000
Notes Payable	173,371	245,193	-	-	173,371	245,193
Compensated Absences	2,826,898	2,667,766	292,574	388,517	3,119,472	3,056,283
Unamortized Bond Premium	956,531	762,060	847,902	923,952	1,804,433	1,686,012
Total	$ 26,686,800	$ 24,190,019	$ 21,145,476	$ 22,277,469	$ 47,832,276	$ 46,467,488

Additional information on the City's long-term debt can be found in Note 5.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

In the Fiscal Year 2022 Budget, General Fund revenues are expected to increase approximately 10% from the Fiscal Year 2021 original budget. Revenue increases are attributable to forecasted sales tax revenue recovery and the additional quarter cent sales tax previously allocated to street maintenance, and an increase in ad valorem property tax revenue Ad valorem taxes make up 43% of General Fund budgeted revenues. Certified assessed valuations, including estimated values on properties under protest, increased 7% for the fiscal year 2022 budget. The ad valorem tax rate for FY2022 is $0.5804/$100 valuation, a decrease of $0.00004 from last year's rate. Sales tax makes up 27% of the City's general operating revenue. The city has seen an increase in sales tax in FY2021 due to economic recovery, an increase in online sales tax receipts, and new businesses in the City. Sales tax has continued to perform above budgeted amounts in Fiscal Year 2022. Although the City has been fortunate to not have a sizable presence in many of the industries affected by the pandemic such as travel, hotels, etc. there have been impacts on revenues derived from recreational activities, fines and forfeitures, and interest income due to investment rates.

Capital improvements continue in the City and many projects are underway. $19.4 million in capital projects and equipment are planned for Fiscal Year 2022. Major street projects such as Whitley Road and various parks projects that began last fiscal year continue. Several major water and wastewater system projects continue for next year and beyond.

The Water and Sewer Operating Fund is budgeted for Fiscal Year 2022 to operate at a net surplus of $57,018 in order to move towards restoring the fund balance reserves to the financial policy standards. Rate increases were put in place in Fiscal Year 2022 that will help meet the escalating costs of water distribution and wastewater treatment. A long-term rate model was reviewed in the 2022 budget process that calls for additional future increases in rates to provide funding for water and wastewater capital projects.

REQUEST FOR INFORMATION

The financial report is designed to provide our citizens, customers, investors, and creditors with a general overview of the City's finances. If you have questions about this report or need additional information, contact the Finance Department, Attn: Director of Finance, 7105 Whitley Road, Watauga, Texas 76148, by phone at 817-514-5822, or by email at financedirector@cowtx.org.

Basic Financial Statements

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Government-Wide Financial Statements

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City of Watauga, Texas
Statement of Net Position
September 30, 2021

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and cash equivalents	$ 18,052,550	$ 4,905,153	$ 22,957,703
Investments	10,673,990	11,769,662	22,443,652
Receivables, net of allowance for uncollectibles	2,218,368	1,947,165	4,165,533
Inventories	17,542	581	18,123
Prepaid items	7,619	-	7,619
Capital assets:			
Nondepreciable	22,283,587	3,897,772	26,181,359
Depreciable, net	30,043,976	35,158,722	65,202,698
Total capital assets	52,327,563	39,056,494	91,384,057
Total assets	83,297,632	57,679,055	140,976,687
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows - OPEB	287,542	54,771	342,313
Deferred outflows - pension	1,024,147	195,076	1,219,223
Total deferred outflows of resources	1,311,689	249,847	1,561,536
LIABILITIES			
Accounts payable	976,748	381,622	1,358,370
Accrued liabilities	4,070,951	209,816	4,280,767
Accrued interest	105,564	96,706	202,270
Customer deposits	22,264	787,178	809,442
Long-term liabilities:			
Due within one year	2,768,236	1,370,199	4,138,435
Due in more than one year	23,918,564	19,775,277	43,693,841
Due in more than one year - total OPEB liability	1,497,654	285,268	1,782,922
Due in more than one year - net pension liability	3,739,886	712,359	4,452,245
Total liabilities	37,099,867	23,618,425	60,718,292
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows - OPEB	137,305	26,153	163,458
Deferred inflows - pension	1,208,954	230,277	1,439,231
Total deferred inflows of resources	1,346,259	256,430	1,602,689
NET POSITION			
Net investment in capital assets	39,716,524	27,856,495	67,573,019
Restricted for:			
Capital improvements	38,660	-	38,660
Debt service	696,033	-	696,033
Culture and recreation	1,686,286	-	1,686,286
Public works	1,584,190	-	1,584,190
Public safety	1,291,038	-	1,291,038
Unrestricted	1,150,464	6,197,552	7,348,016
Total net position	$ 46,163,195	$ 34,054,047	$ 80,217,242

The Notes to Basic Financial Statements are an integral part of these statements.

City of Watauga, Texas

Statement of Activities

For the Fiscal Year Ended September 30, 2021

Functions/Programs	Expenses	Program Revenues: Fees, Fines and Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expenses) Revenues and Changes in Net Position: Governmental Activities	Net (Expenses) Revenues and Changes in Net Position: Business- type Activities	Net (Expenses) Revenues and Changes in Net Position: Total
Governmental activities:							
General government	$ 4,384,354	$ 223,193	$ -	$ -	$ (4,161,161)	$ -	$ (4,161,161)
Public safety	9,136,711	1,355,268	842,229	-	(6,939,214)	-	(6,939,214)
Culture and recreation	1,878,361	90,036	5,822	-	(1,782,503)	-	(1,782,503)
Public works	2,131,872	1,033,937	-	-	(1,097,935)	-	(1,097,935)
Interest on long-term debt	653,227	-	-	-	(653,227)	-	(653,227)
Total governmental activities	18,184,525	2,702,434	848,051	-	(14,634,040)	-	(14,634,040)
Business-type activities:							
Water and Sewer	6,770,160	8,976,433	-	-	-	2,206,273	2,206,273
Drainage Utility	1,216,623	1,559,331	-	-	-	342,708	342,708
Total business-type activities	7,986,783	10,535,764	-	-	-	2,548,981	2,548,981
TOTAL GOVERNMENT	$ 26,171,308	$ 13,238,198	$ 848,051	$ -	(14,634,040)	2,548,981	(12,085,059)
General revenues:							
Taxes							
Property taxes, levied for general purposes					8,926,186	-	8,926,186
Sales taxes					6,306,657	-	6,306,657
Franchise taxes					783,430	-	783,430
Payment in lieu of taxes					503,500	-	503,500
Penalties and interest					43,240	-	43,240
Interest on investments					44,353	78,637	122,990
Miscellaneous revenue					69,825	2,778	72,603
Transfers					592,500	(592,500)	-
Total general revenues and transfers					17,269,691	(511,085)	16,758,606
Change in net position					2,635,651	2,037,896	4,673,547
Net position - beginning of year					43,527,544	32,016,151	75,543,695
Net position - end of year					$ 46,163,195	$ 34,054,047	$ 80,217,242

The Notes to Basic Financial Statements are an integral part of these statements.

Fund Financial Statements
Governmental Funds

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City of Watauga, Texas

Balance Sheet - Governmental Funds

September 30, 2021

	General	Debt Service	Capital Projects	COVID-19 Grant	Non Major Governmental Funds	Total Governmental Funds
ASSETS						
Cash and cash equivalents	$ 6,998,524	$ 632,688	$ 1,129,893	$ 3,033,024	$ 4,517,096	$ 16,311,225
Investments	-	120,437	10,529,932	-	23,621	10,673,990
Receivables, net of allowance for uncollectibles						
Property taxes	92,933	48,472	-	-	-	141,405
Accounts receivable	1,646,410	-	-	-	430,553	2,076,963
Prepaid items	6,454	-	-	-	1,165	7,619
Inventory of supplies	17,542	-	-	-	-	17,542
TOTAL ASSETS	$ 8,761,863	$ 801,597	$ 11,659,825	$ 3,033,024	$ 4,972,435	$ 29,228,744
LIABILITIES, DEFERRED INFLOWS AND FUND BALANCES						
LIABILITIES						
Accounts payable	$ 255,047	$ -	$ 394,479	$ -	$ 304,022	$ 953,548
Accrued liabilities	954,370	-	16,483	3,033,024	67,074	4,070,951
Deposits	22,264	-	-	-	-	22,264
Total liabilities	1,231,681	-	410,962	3,033,024	371,096	5,046,763
DEFERRED INFLOWS OF RESOURCES						
Unavailable revenue - property taxes	98,498	42,908	-	-	-	141,406
Unavailable revenue - EMS	396,523	-	-	-	-	396,523
Total deferred inflows of resources	495,021	42,908	-	-	-	537,929
Fund balances:						
Nonspendable						
Inventory	17,542	-	-	-	-	17,542
Prepaids items	6,454	-	-	-	1,165	7,619
Restricted:						
Capital acquisitions and contractual obligations	-	-	11,248,863	-	38,660	11,287,523
Debt service	-	758,689	-	-	-	758,689
Culture and recreation	-	-	-	-	1,686,286	1,686,286
Public works	-	-	-	-	1,584,190	1,584,190
Public safety	-	-	-	-	1,291,038	1,291,038
Unassigned	7,011,165	-	-	-	-	7,011,165
Total fund balances	7,035,161	758,689	11,248,863	-	4,601,339	23,644,052
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	$ 8,761,863	$ 801,597	$ 11,659,825	$ 3,033,024	$ 4,972,435	$ 29,228,744

The Notes to Basic Financial Statements are an integral part of these statements.

City of Watauga, Texas

Reconciliation of the Governmental Funds Balance Sheet
to the Statement of Net Position
September 30, 2021

TOTAL FUND BALANCE - GOVERNMENTAL FUND	$	23,644,052
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities, excluding ISF capital assets, are not current financial resources and therefore are not reported in the governmental funds balance sheet.		51,000,294
Deferred outflows related to OPEB		287,542
Deferred outflows related to pension		1,024,147
Interest payable on long-term debt does not require current financial resources; therefore, interest payable is not reported as a liability in the governmental funds balance sheet.		(105,564)
Revenues earned but not available within sixty days of the year end are not recognized as revenue on the fund financial statements.		537,929
Deferred inflows related to OPEB		(137,305)
Deferred inflows related to Pension		(1,208,954)
Long-term liabilities, including bonds payable are not due and payable in the current period and therefore are not reported in the fund financial statements. Long-term liabilities at year-end consist of:		
General obligation bonds		(960,000)
Certificate of obligations		(21,395,000)
Tax Notes		(375,000)
Premiums on issuance		(956,531)
Notes payable		(173,371)
Compensated absences		(2,826,898)
Net pension liability		(3,739,886)
Total OPEB liability		(1,497,654)
Total long-term liabilities		(31,924,340)
Internal service funds are used by management to charge the cost of certain activities, such as fleet management, to individual funds. The net position of the internal service fund is net of the amount allocated to business-type activities, deferred charges, capital assets and long-term liabilities.		3,045,394
TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES	$	46,163,195

The Notes to Basic Financial Statements are an integral part of these statements.

City of Watauga, Texas

Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For The Year Ended September 30, 2021

	General	Debt Service	Capital Projects	COVID-19 Grant	Non Major Governmental Funds	Total Governmental Funds
REVENUES						
Taxes and franchise fees	$ 10,503,946	$ 2,779,341	$ -	$ -	$ 2,787,985	$ 16,071,272
Licenses and permits	776,817	-	-	-	-	776,817
Charges for services	901,900	-	-	-	-	901,900
Fines and forfeitures	568,795	-	-	-	-	568,795
Interest income	12,909	1,262	20,287	-	5,774	40,232
Intergovernmental	503,500	-	-	-	-	503,500
Miscellaneous	626,455	-	-	460,653	185,361	1,272,469
Total revenues	13,894,322	2,780,603	20,287	460,653	2,979,120	20,134,985
EXPENDITURES						
Current:						
General government	3,921,341	-	-	-	-	3,921,341
Public safety	6,630,783	-	-	303,757	1,826,877	8,761,417
Culture and recreation	1,514,382	-	-	-	98,975	1,613,357
Public works	771,315	-	-	-	88,026	859,341
Capital outlay	16,485	-	5,035,790	156,896	420,658	5,629,829
Debt service:						
Principal	-	2,340,000	71,819	-	-	2,411,819
Interest and other charges	-	1,179,485	122,061	-	-	1,301,546
Total expenditures	12,854,306	3,519,485	5,229,670	460,653	2,434,536	24,498,650
Excess (deficiency) of revenues over expenditures	1,040,016	(738,882)	(5,209,383)	-	544,584	(4,363,665)
OTHER FINANCING SOURCES (USES)						
Proceeds from bond refunding	-	575,000	-	-	-	575,000
Issuance of debt	-	-	4,540,000	-	-	4,540,000
Premium on bond issuance	-	-	271,297	-	-	271,297
Transfers in	755,781	157,503	100,000	-	-	1,013,284
Transfers out	(100,000)	-	-	-	(409,784)	(509,784)
Total other financing sources (uses)	655,781	732,503	4,911,297	-	(409,784)	5,889,797
Net change in fund balances	1,695,797	(6,379)	(298,086)	-	134,800	1,526,132
Fund Balance, beginning	5,339,364	765,068	11,546,949	-	4,466,539	22,117,920
FUND BALANCE, ending	$ 7,035,161	$ 758,689	$ 11,248,863	$ -	$ 4,601,339	$ 23,644,052

The Notes to Basic Financial Statements are an integral part of these statements.

City of Watauga, Texas

Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities
For the Fiscal Year Ended September 30, 2021

TOTAL NET CHANGE IN FUND BALANCE - GOVERNMENTAL FUND	$	1,526,132
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report outlays for capital assets as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount of capital assets recorded in the current period.		5,601,309
Depreciation expense on capital assets is reported in the statement of activities but does not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditures in the governmental funds.		(2,284,770)
Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the Statement of Activities a gain or (loss) is reported for each disposal. Thus, the change in net position differs from the change in fund balance by the book value of the assets sold and disposed.		(22,472)
The issuance of long-term debt (e.g. bonds) ($5,115,000) with the refunding ($560,000) and related premium on bond issuance ($271,300) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt of $2,700,522 consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of premiums, discounts, and similar items of $76,829, when debt is first issued, whereas the amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.		(2,337,649)
Current year changes in long-term liability for compensated absences do not require the use of current financial resources; therefore, are not reported as expenditures in governmental funds.		(159,132)
Current year changes in accrued interest payable do not require the use of current financial resources; therefore, are not reported as expenditures in governmental funds.		11,490
Certain unavailable revenues in the government-wide statement of activities that do not provide current financial resources are not reported as revenue in the governmental funds.		122,102
Current year changes in the net pension liability, deferred inflows of resources and deferred outflows of resources in the pension plan. The net effect of these items decreased net position.		386,197
Current year changes in the net pension liability, deferred inflows of resources and deferred outflows of resources in the OPEB plans. The net effect of these items decreased net position.		(72,129)
Internal service funds are used by management to charge the costs of certain activities, such as fleet management, to individual funds. The net revenue of the internal service funds is reported with business-type activities.		(135,427)
CHANGE IN NET POSITION - GOVERNMENTAL ACTIVITIES	$	2,635,651

The Notes to Basic Financial Statements are an integral part of these statements.

Fund Financial Statements
Proprietary Funds

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City of Watauga, Texas
Statement of Net Position
Proprietary Funds
September 30, 2021

	Business-Type Activities			Governmental Activities - Internal Service Fund
	Water and Sewer	Drainage Utility	Total Enterprise Funds	
ASSETS				
Current assets				
Cash and cash equivalents	$ 1,692,364	$ 3,212,789	$ 4,905,153	$ 1,741,325
Investments	11,769,662	-	11,769,662	-
Accounts receivable and unbilled revenue less allowance for uncollectibles	1,785,967	161,198	1,947,165	-
Inventories	581	-	581	-
Prepaid items	-	-	-	-
Total current assets	15,248,574	3,373,987	18,622,561	1,741,325
Non-current assets:				
Capital Assets:				
Land	91,000	-	91,000	-
Construction in Progress	3,318,717	488,055	3,806,772	-
Buildings	3,246,847	106,931	3,353,778	154,068
Equipment	1,857,196	211,446	2,068,642	3,937,650
Drainage improvements	-	20,872,735	20,872,735	-
Waterworks and sanitary sewer system	27,473,707	-	27,473,707	-
	35,987,467	21,679,167	57,666,634	4,091,718
Less Accumulated depreciation	(8,231,397)	(10,761,053)	(18,992,450)	(2,382,139)
Capital assets net of depreciation	27,756,070	10,918,114	38,674,184	1,709,579
Total assets	43,004,644	14,292,101	57,296,745	3,450,904
DEFERRED OUTFLOWS OF RESOURCES				
Deferred outflows - OPEB	41,078	13,693	54,771	-
Deferred outflows - pension	146,307	48,769	195,076	-
Total deferred outflows	187,385	62,462	249,847	-

The Notes to the Basic Financial Statements are an integral part of these statements.

City of Watauga, Texas
Statement of Net Position – Continued
Proprietary Funds
September 30, 2021

	Water and Sewer	Drainage Utility	Total Enterprise Funds	Governmental Activities - Internal Service Fund
LIABILITIES				
Current liabilities				
Payable from current assets				
Accounts payable	$ 356,107	$ 25,515	$ 381,622	$ 23,200
Accrued liabilities	186,762	23,054	209,816	-
Current portion of compensated absences	205,841	4,358	210,199	-
Current portion of bonds payable	1,160,000	-	1,160,000	-
Deposits	787,178	-	787,178	-
Payable from restricted assets				
Accrued interest	96,706	-	96,706	-
Total current liabilities	2,792,594	52,927	2,845,521	23,200
Noncurrent liabilities:				
Bonds payable	19,692,902	-	19,692,902	-
Compensated absences	12,208	70,167	82,375	-
Total OPEB liability	213,951	71,317	285,268	-
Net pension liability	534,269	178,090	712,359	-
Total non-current liabilities	20,453,330	319,574	20,772,904	-
Total liabilities	23,245,924	372,501	23,618,425	23,200
DEFERRED INFLOWS OF RESOURCES				
Deferred inflows - OPEB	19,615	6,538	26,153	-
Deferred inflows - pension	172,708	57,569	230,277	-
Total deferred outflows	192,323	64,107	256,430	-
NET POSITION				
Net investment in capital assets	16,556,071	10,918,114	27,474,185	1,709,579
Unrestricted	3,197,711	2,999,841	6,197,552	1,718,125
Total Net Position	$ 19,753,782	$ 13,917,955	33,671,737	$ 3,427,704
Reconciliation to government-wide statement of net position				
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds			382,310	
Net position of business-type activities			$ 34,054,047	

The Notes to the Basic Financial Statements are an integral part of these statements.

City of Watauga, Texas

Statement of Revenues, Expenses and Changes in Fund Net Position
Proprietary Funds
September 30, 2021

	Business-Type Activities			Governmental Activities -
	Water and Sewer	Drainage Utility	Total Enterprise Funds	Internal Service Fund
Operating revenues				
Water service	$ 4,654,864	$ -	$ 4,654,864	$ -
Sewer service	3,828,805	-	3,828,805	-
Drainage fees	-	1,476,925	1,476,925	-
Service fees and miscellaneous	492,764	82,406	575,170	92,890
Total operating revenues	8,976,433	1,559,331	10,535,764	92,890
Operating expenses				
Personnel services	1,293,602	388,450	1,682,052	-
Supplies	85,066	18,568	103,634	-
Maintenance	46,165	8,965	55,130	-
Contractual services	4,179,364	106,517	4,285,881	-
Capital outlay	101,517	277,199	378,716	16,989
Depreciation and amortization	574,931	416,924	991,855	269,306
Total operating expenses	6,280,645	1,216,623	7,497,268	286,295
Operating income (loss)	2,695,788	342,708	3,038,496	(193,405)
Non-operating revenues (expenses)				
Investment income	71,313	7,324	78,637	4,121
Gain (loss) on disposal of capital assets	2,778	-	2,778	(11,060)
Interest expense	(513,598)	-	(513,598)	-
Total Non-operating revenue (expenses), net	(439,507)	7,324	(432,183)	(6,939)
Income (loss) before transfers	2,256,281	350,032	2,606,313	(200,344)
Transfers in	-	-	-	89,000
Transfers out	(519,000)	(73,500)	(592,500)	-
Change in net position	1,737,281	276,532	2,013,813	(111,344)
Total net position - beginning of the year	18,016,501	13,641,423		3,539,048
Total net position - ending of the year	$ 19,753,782	$ 13,917,955		$ 3,427,704
Reconciliation to government-wide statement of net position				
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds			24,083	
Change in net position of business-type activities			$ 2,037,896	

The Notes to the Basic Financial Statements are an integral part of these statements.

City of Watauga, Texas
Statement of Cash Flows
Proprietary Funds
September 30, 2021

	Business-Type Activities			Governmental Activities - Internal Service Fund
	Water and Sewer	Drainage Utility	Total Enterprise Funds	
OPERATING ACTIVITIES				
Cash received from customers	$ 8,838,968	$ 1,468,988	$ 10,307,956	$ 93,559
Cash payments to suppliers for goods and services	(4,440,827)	(478,949)	(4,919,776)	6,211
Cash payments to employees for services	(1,443,299)	(524,360)	(1,967,659)	-
Net cash provided by operating activities	2,954,842	465,679	3,420,521	99,770
NONCAPITAL FINANCING ACTIVITIES				
Transfers from other funds	-	-	-	89,000
Transfers to other funds	(519,000)	(73,500)	(592,500)	-
Net cash used in noncapital financing activities	(519,000)	(73,500)	(592,500)	89,000
CAPITAL AND RELATED FINANCING ACTIVITIES				
Proceeds on issuance of debt	1,140,000	-	1,140,000	-
Proceeds from the sale of equipment	2,778	-	2,778	1,566
Purchase of capital assets	(2,194,441)	(654,501)	(2,848,942)	(242,858)
Repayment of debt	(2,100,000)	-	(2,100,000)	-
Bond issuance costs	(76,050)	-	(76,050)	-
Interest paid on debt	(549,688)	-	(549,688)	-
Net cash used in capital and related financing activities	(3,777,401)	(654,501)	(4,431,902)	(241,292)
INVESTING ACTIVITIES				
Sale of investments	2,228,744	597,199	2,825,943	283,241
Investment income	71,313	7,324	78,637	4,121
Net cash provided by investing activities	2,300,057	604,523	2,904,580	287,362
Net change in cash and cash equivalents	958,498	342,201	1,300,699	234,840
Cash and cash equivalents, beginning of year	733,866	2,870,588	3,604,454	1,506,485
Cash and cash equivalents, end of year	$ 1,692,364	$ 3,212,789	$ 4,905,153	$ 1,741,325
Reconciliation of operating income (loss) to net cash provided by operating activities				
Operating income (loss)	$ 2,695,788	$ 342,708	$ 3,038,496	$ (193,405)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities				
Depreciation and amortization	574,931	416,924	991,855	269,306
Change in assets and liabilities				
Accounts receivable and unbilled revenue	(202,816)	(92,904)	(295,720)	669
Inventories	30,315	-	30,315	-
Prepaid items	950	-	950	-
Deferred outflows - OPEB	(14,475)	(4,825)	(19,300)	-
Deferred outflows - pension	33,851	11,284	45,135	-
Accounts payable	(35,687)	(65,139)	(100,826)	23,200
Accrued liabilities	(35,831)	(94,012)	(129,843)	-
Deposits	41,058	-	41,058	-
Compensated absences	(69,000)	(26,943)	(95,943)	-
Net pension liability	(76,236)	(25,412)	(101,648)	-
Total OPEB liability	27,609	9,203	36,812	-
Deferred inflows - OPEB	(2,829)	(943)	(3,772)	-
Deferred inflows - pension	(12,786)	(4,262)	(17,048)	-
Net cash provided by operating activities	$ 2,954,842	$ 465,679	$ 3,420,521	$ 99,770

The Notes to the Basic Financial Statements are an integral part of these statements.

Note 1. Summary of Significant Accounting Policies

The City of Watauga (the City) Home Rule Charter was adopted by the voters at an election held on January 19, 1980 and amended January 19, 1985, August 8, 1987, August 11, 1990, January 15, 1994, August 10, 1996, August 8, 1998, September 14, 2002, May 7, 2005, November 6, 2007, May 11, 2013 and November 5, 2019. The City operates under a Council-Manager form of government. The accounting and reporting policies of the City relating to the funds included in the accompanying basic financial statements conform to accounting principles generally accepted in the United States of America (GAAP) applicable to state and local governments.

The City prepares its basic financial statements in conformity with U.S. generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant accounting policies of the City are described below.

A. Financial Reporting Entity

The basic financial statements of the City include the primary government and its component units, entities for which the primary government is financially accountable and other entities for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

The definition of the reporting entity is based primarily on the notion of financial accountability. A primary government is financially accountable for the organizations that make up its legal entity. It is also financially accountable for legally separate organizations if its officials appoint a voting majority of an organization's governing body and either it is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or to impose specific financial burdens on, the primary government. A primary government may also be financially accountable for governmental organizations that are fiscally dependent on it.

A primary government has the ability to impose its will on an organization if it can significantly influence the programs, projects, or activities of, or the level of services performed or provided by, the organization. A financial benefit or burden relationship exists if the primary government (a) is entitled to the organization's resources; (b) is legally obligated or has otherwise assumed the obligation to finance the deficits of, or provide financial support to, the organization; or (c) is obligated in some manner for the debt of the organization.

The following entities were found to be component units of the City and are included in the basic financial statements:

The Watauga Economic Development Corporation (WEDC) was created to encourage the development and advancement of City businesses, development and parks within the City. The WEDC is funded through a ¼ cent sales tax and is a Type B corporation. The WEDC's governing board is appointed by the City Council. The WEDC is composed of two funds: a special revenue fund and a capital projects fund.

The Watauga Crime Control and Prevention District Fund's (WCCPD) sole purpose is to act on behalf of the City in the accumulation and use of resources to add law enforcement officers and purchase additional equipment and supplies for law enforcement purposes. The WCCPD is reported as a special revenue fund.

A blended presentation has been used to report the financial information of these component units. The financial information for the individual component units is available from the City.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information about the City as a whole. These statements include all activities of the primary government and its blended component units. For the most part the effect of interfund activity has been removed from these statements. Interfund services provided and used are not eliminated in the process of consolidation. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Fund Financial Statements

The City segregates transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Separate statements are presented for governmental and proprietary activities. These statements present each major fund as a separate column on the fund financial statements; all non-major funds are aggregated and presented in a single column.

Governmental funds are those funds through which most governmental functions typically are financed. The measurement focus of governmental funds is on the sources, uses and balance of current financial resources. The City has presented the following major governmental funds:

General Fund
The General Fund is the main operating fund of the City. This fund is used to account for all financial resources not accounted for in other funds. All general tax revenues and other receipts that are not restricted by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures, fixed charges and capital improvement costs that are not paid through other funds are paid from the General Fund.

Debt Service Fund
The Debt Service Fund is used to account for the accumulation of financial resources for the payment of principal, interest and related costs on general long-term debt paid primarily from taxes levied by the City. The fund balance of the Debt Service Fund is restricted exclusively for debt service expenditures.

Capital Projects Fund
The Capital Projects Fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment. Financing is provided primarily by the sale of tax notes, general obligation and contractual obligation bonds.

COVID-19 Grant Fund
The COVID-19 Grant Fund is used to account for the CARES Grant Interlocal Agreement with Tarrant County passed through the federal government for Coronavirus relief. The eligible expenses include expenses related to COVID-19 response, including payroll and benefits costs, public health and safety, telework enhancements, etc. The City received American Rescue Plan Act funding in 2021 that was deposited to this fund for future use.

Proprietary Funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. The accounting objectives are determinations of net income, financial position and cash flow. All assets and liabilities are included on the Statement of Net Position.

The City has presented the following major proprietary funds:

Water and Sewer Fund
The Water and Sewer Fund is used to account for the provision of water and sewer services to the residents of the City. Activities of the fund include administration, operations and maintenance of the water and sewer system and billing and collection activities. The fund also accounts for the accumulation of resources for, and the payment of, long-term debt principal and interest for water and sewer debt. All costs are financed through charges to utility customers with rates reviewed regularly, at least annually, and adjusted if necessary to ensure integrity of the funds.

Drainage Utility Fund
The Drainage Utility Fund is used to account for the user fees charged per residential and commercial unit to enhance drainage of properties within the City. All activities necessary to provide such services are accounted for in this fund, including, but not limited to, administration, operations and maintenance.

Additionally, the City reports an Internal Service Fund, which was established in 1997 for the purpose of replacing equipment. Departments are charged user fees to accumulate funds to be used in replacing existing equipment as needed.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expenses for the proprietary funds include the cost of personnel and contractual services, supplies and depreciation on capital assets.

All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

D. Measurement Focus, Basis of Accounting and Financial Statement Presentation

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The government-wide statements and fund financial statements for proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus means all assets and liabilities (whether current or non-current) are included on the statement of net position and the operating statements present increases (revenues) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenues are recognized when earned, including unbilled water and sewer services, which are accrued. Expenses are recognized at the time the liability is incurred.

Governmental fund financial statements are reported using the current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual, i.e., when they become both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The City considers revenues as available if they are collected within 60 days after year end. Expenditures are recorded when the related fund liability is incurred. However, debt service expenditures, as well as expenditures related to compensated absences are recorded only when payment is due.

The revenues susceptible to accrual are property taxes, franchise fees, licenses, charges for service, interest income and intergovernmental revenues. Sales taxes collected and held by the state at year end on behalf of the government are also recognized as revenue. All other governmental fund revenues are recognized when received.

E. Deposits and Investments

Substantially all operating cash, deposits, and short-term investments are maintained in consolidated cash accounts or individual fund investment accounts. Related interest income is allocated to the various funds based primarily on ownership by each fund of specific investments. Cash equivalents consist of highly liquid investments with original maturities of three months or less.

For purposes of the statement of cash flows, the City considers all highly liquid investments to be cash equivalents. Certificates of Deposit are reported at cost plus accrued interest. All other investments are reported at fair value.

State statutes authorize the City to invest in obligations of the U.S. Government or its agencies; obligations of the State of Texas or its agencies; and certain other obligations, repurchase agreements, money market mutual funds, and certificates of deposits within established criterion. During the year ended September 30, 2021, the City did not own any types of securities other than those permitted by statute.

F. Receivables

All trade and property tax receivables are shown net of an allowance for uncollectibles.

Property taxes are levied for appropriation for the fiscal year beginning on October 1, are due October 1, attach as an enforceable lien on property as of January 1, and become delinquent on February 1. Property taxes are accrued based on the period for which they are levied and available. Delinquent taxes estimated not to be available are treated as deferred revenue in the governmental fund financial statements. Property taxes for cities, including those applicable to debt service, are limited by the Texas Constitution to $2.50 per $100 of assessed valuation. The City's current tax rate is $0.580404 per $100 of assessed valuation and assessed valuation is approximately 100% of estimated value.

G. Prepaid Items

Prepaid items indicate payments made by the City in the current year to provide services occurring in a subsequent fiscal year. The consumption approach provides for the initial reporting of the item as an asset while recognition of the expenditure when the item is actually used or consumed.

H. Inventories

Inventories, which are recognized as expenditures as they are consumed, are stated at cost (first-in, first-out method). Inventories consist primarily of expendable supplies. Inventories are offset by a fund balance reserve account in applicable governmental funds to indicate the inventory values are not available for appropriation and are not expendable financial resources.

I. Interfund Receivables and Payables

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

J. Transfers Between Funds

Legally authorized transfers are treated as interfund transfers and are included in the results of operations of both governmental and proprietary funds. Interfund transfers in the fund statements are reported as other financing sources (uses) in governmental funds and after non-operating revenues (expenses) in the proprietary funds.

K. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements and in the fund financial statements for proprietary funds. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets, donated works of art and similar items, and capital assets received in a service concession arrangement are valued at their acquisition value on the date donated. Repairs and maintenance are recorded as expenses. Renewals and betterments are capitalized. Interest has not been capitalized during the construction period on property, plant, equipment, and infrastructure assets.

Assets capitalized, not including infrastructure assets, have an original cost of $5,000 or more and over five years of useful life. Depreciation has been calculated on each class of depreciable property using the straight-line method. Estimated useful lives are as follows:

Buildings and improvements	50 years
Improvements other than buildings	50 years
Equipment	10 years
Drainage Improvements	50 years
Infrastructure	9-50 years
Waterworks and sanitary sewer system	50 years

L. Compensated Absences

City employees are granted vacation, sick and other compensated time pay in varying amounts. In the event of termination, an employee hired before 10/1/2013 is reimbursed for accumulated unused vacation days up to a maximum of 60 days, or an employee hired after 10/1/2013 is reimbursed for accumulated unused vacation days up to a maximum of 30 days if the employee has completed their probationary period of six months for a non-civil service employee or at least one year for civil service employees. Employees hired before 10/1/2013 are reimbursed up to 100% of 90 days for accumulated sick leave. Non-civil service employees hired after 10/1/2013 are no longer reimbursed for unpaid sick leave. The current and long-term liabilities for accumulated vacation and sick leave are reported on the government-wide financial statements and in the proprietary fund financial statements. The total liability for compensated absences at September 30, 2021 was $3,119,472, including $ 292,574 of proprietary fund balances which are included in current and non-current liabilities on the proprietary fund statement of net position.

The estimated vacation liability expected to be satisfied with available financial resources is included in accrued salaries and wages in the governmental funds.

M. Deferred Inflows and Outflows of Resources

The statement of net position includes a separate section, in addition to assets, for deferred outflows of resources. Deferred outflows of resources, represents a consumption of net position/fund balance that applies to a future period(s) and therefore will not be recognized as an expense/expenditure until that time. In addition to liabilities, the statement of net position reports a separate section for deferred inflows of resources. Deferred inflows of resources, represents an acquisition of net position/fund balance that applies to a future period(s) and so will not be recognized as revenue until that time.

The City has the following items that qualify for reporting as deferred outflows or inflows of resources:

- Difference in projected and actual earnings on pension assets – this difference is deferred and amortized over a closed five-year period.
- Difference in expected and actual pension and OPEB experience – this difference is deferred and amortized over a closed period that approximates the estimated average remaining lives of all members on the measurement date.
- Difference in pension and OPEB actuarial assumption changes – this difference is deferred and amortized over a closed period that approximates the estimated average remaining lives of all members on the measurement date.
- Pension and OPEB contributions after measurement date – these contributions are deferred and recognized in the following fiscal year.
- Emergency medical services and property taxes are recognized in the period the amount becomes available.

N. Fund Balance

The City reports fund balances in accordance with GASB Statement No. 54 "Fund Balance Reporting and Governmental Fund Type Definitions." This Statement provides clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balances more transparent. The following classifications describe the relative strength of the spending constraints:

Non-spendable fund balance – amounts that are not in spendable form or are required to be maintained intact. As such, the inventory and prepaid items have been classified as non-spendable in the Governmental Funds Balance Sheet.

Restricted fund balance – amounts that can be spent only for specific purposes because of local, state or federal laws, or externally imposed conditions by grantors or creditors. Restrictions for capital acquisitions and contractual obligations, debt service and other purpose and state restrictions have been properly classified in the Governmental Funds Balance Sheet.

Committed fund balance – amounts constrained to specific purposes by the City itself, using its highest level of decision-making authority (i.e. the City Council). To be reported as committed, amounts cannot be used for any other purposes unless the City takes the same highest level of action to remove or change the constraint. The City establishes (and modifies and rescinds) fund balance commitments by passage of a resolution by City Council. Once the resolutions or ordinances are adopted, the limitation imposed remains in place until a similar action is taken (the adoption of another resolution or ordinance) to remove or revise the limitation. There were no committed fund balances as of September 30, 2021.

Assigned fund balance – amounts the City intends to use for a specific purpose. Intent can be expressed by the City or by an official or body to which the City Council delegates the authority. Per the City's fund balance policy, assigned fund balance amounts are established by the City Manager. There were no assigned fund balances as of September 30, 2021.

Unassigned fund balance – amounts that are available for any purpose. The general fund is the only fund that reports a positive unassigned fund balance amount. However, in governmental funds other than the general fund, if expenditures incurred for specific purposes exceed the amounts that are restricted, committed, or assigned to those purposes, it may be necessary to report a negative unassigned fund balance in that fund.

When multiple categories of fund balance are available for expenditure, the City will first spend the most restricted funds before moving down to the next most restrictive category with available funds.

O. Net Position

Net position represents the difference between assets, deferred outflows of resources, liabilities and deferred inflows of resources. The City's net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislations adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the City considers restricted funds to have been spent first.

P. Encumbrances

Encumbrances for goods or purchased services are documented by purchase orders or contracts. Since under Texas law, appropriations lapse at fiscal year-end, outstanding encumbrances are appropriately provided for in the subsequent years' budget to provide for the liquidation of the prior commitments. As of September 30, 2021, the City had no encumbrances in the General Fund that rolled over into the new fiscal year.

Q. Pension

For purposes of measuring the net pension liability, pension related deferred outflows and inflows of resources, and pension expense, City specific information about its Fiduciary Net Position in the Texas Municipal Retirement System (TMRS) and additions to/deductions from the City's Fiduciary Net Position have been determined on the same basis as they are reported by TMRS.

For this purpose, plan contributions are recognized in the period that compensation is reported for the employee, which is when contributions are legally due. Benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. Information regarding the City's Total Pension Liability is obtained from TMRS through a report prepared for the City by TMRS consulting actuary, GRS Retirement Consulting, in compliance with Governmental Accounting Standards Board (GASB) Statements No. 68 and No. 71.

R. Other Post-Employment Benefits

The City provides its retirees the opportunity to maintain health insurance coverage by participating in the City's self-insurance plan. The City reports the total liability for this plan on the government-wide and proprietary fund financial statements. The actual cost recorded in the governmental fund financial statements is the cost of the health benefits incurred on behalf of the retirees less the premiums collected from the retirees.

Information regarding the City's total liability for this plan is obtained through a report prepared by GRS Retirement Consulting, the City's third-party actuary, in compliance with GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.

Additionally, the City participates in a defined benefit group-term life insurance plan, both for current and retired employees, administered by the Texas Municipal Retirement System (TMRS). The City reports the total liability for this plan on the government-wide and proprietary fund financial statements. Information regarding the City's total OPEB liability is obtained from TMRS through a report prepared for the City by TMRS' consulting actuary, GRS Retirement Consulting, in compliance with GASB Statement No. 75.

S. New Accounting Pronouncements

The GASB pronouncements effective in fiscal years 2021 and 2022 are listed as follows:

The GASB issued Statement No. 84, Fiduciary Activities, which was effective for fiscal year 2021. The objective of this Statement is to establish standards of accounting and financial reporting for fiduciary activities. This Statement applies to all state and governmental entities. The City implemented this standard in fiscal year 2021 but it had no impact on the City.

The GASB issued Statement No. 87, Leases – This statement changes the recognition requirements for certain lease assets and liabilities for leases that are currently classified as operating leases. This statement will become effective for the City in fiscal year 2022.

The GASB issued Statement No. 90, Majority Equity Interests, An Amendment of GASB Statements No. 14 and 16, which was effective for fiscal year 2021. The objective of this Statement is to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. This Statement applies to all state and governmental entities. The City implemented this standard in fiscal year 2021 but it had no impact on the City.

The GASB issued Statement No. 92, Omnibus 2020. This Statement establishes accounting and financial reporting requirements for specific issues related to leases, intraentity transfers of assets, postemployment benefits, government acquisitions, risk financing and insurance-related activities of public entity risk pools, fair value measurements, and derivative instruments. This statement will become effective for the City in fiscal year 2022.

The GASB issued Statement No. 93, Replacement of Interbank Offered Rates. This Statement establishes accounting and financial reporting requirements related to the replacement of IBORs in hedging derivative instruments and leases. This statement will become effective for the City in fiscal year 2022.

The GASB issued Statement No. 97, Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans - an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32. This Statement modifies the applicability of certain component unit criteria as they relate to defined contribution pension plans, defined contribution OPEB plans, and other employee benefit plans. This statement will become effective for the City in fiscal year 2022/immediately.

The GASB issued Statement No. 98, The Annual Comprehensive Financial Report. This Statement was issued in October 2021 and establishes the term annual comprehensive financial report and its acronym ACFR. That new term and acronym replace instances of Annual Comprehensive Financial Report and its acronym in generally accepted accounting principles for state and local governments. The City implemented this standard in fiscal year 2021. The implementation of this standard changed the report name to the Annual Comprehensive Financial Report.

Note 2. Deposits (Cash) and Investments

The Public Funds Investment Act (Government Code Chapter 2256) (the Act) contains specific provisions in the areas of investment practices, management reports and establishment of appropriate policies. Among other things, it requires the City to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity, allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, (9) and bid solicitation preferences for certificates of deposit.

Statutes and the City's investment policy authorized the City to invest in the following investments as summarized in the following table:

Authorized Investment Type	Final Stated Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Public funds investment	N/A	100%	None
Certificates of deposit	5 years	100%	None
U.S. Treasury obligations	5 years	100%	None
No-load money market	5 years	50%	None
Repurchase agreements	5 years	50%	None
State of Texas securities	5 years	50%	None
U.S. agency obligations	5 years	50%	None
Commercial paper	5 years	10%	None

The Act also requires the City to have independent auditors perform test procedures related to investment practices as provided by the Act. The City is in substantial compliance with the requirements of the Act and with local policies.

Deposits and investments as of September 30, 2021, are classified in the accompanying financial statements as follows:

Governmental Activities	$	28,726,540
Business Type Activities		16,674,815
	$	45,401,355

Deposits and investments as of September 30, 2021, consist of the following:

Deposits with financial institutions	$	4,977,493
Investments		40,423,862
	$	45,401,355

$10,000 of the deposits with financial institutions listed above are in a joint use facility fund with the City of North Richland Hills. The funds are to be used to maintain a water and sewer transfer station.

For the purposes of the statement of cash flows, the City considers all highly liquid investments with maturities at the date of purchase of three months or less to be cash equivalents.

A. Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the City manages its exposure to interest rate risk is by investing mainly in investment pools which purchase a combination of shorter term investments with an average maturity of less than 365 days thus reducing the interest rate risk. The City monitors the interest rate risk inherent in its portfolio by measuring the weighted average maturity of its portfolio. The City has no specific limitations with respect to this metric.

As of September 30, 2021, the City had the following investments:

Investment Type	Carrying Value	Weighted Average Maturity
TexPool	$ 7,795,756	37 days
TexPool Prime	1,044,445	49 days
TexasTERM	471,748	32 days
LOGIC	309,113	55 days
Money Market	28,259,423	Daily
CDs	2,543,377	187 days
	$ 40,423,862	

$1,270,330 of the investments listed above are in a joint use facility fund with the City of North Richland Hills. The funds are to be used to maintain a water and sewer transfer station.

As of September 30, 2021, the City did not invest in any securities which are highly sensitive to interest rate fluctuations.

B. Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the Public Funds Investment Act, the City's investment policy or debt agreements and the actual rating as of year-end for each investment type.

Investment Type	Carrying Value	Minimum Rating Required	Actual Investment Rating
TexPool	$ 7,795,756	AAA	AAAm
TexPool Prime	1,044,445	AAA	AAAm
TexasTerm	471,748	AAA	AAAm
LOGIC	309,113	AAA	AAAm
Money Market	28,259,423	N/A	N/A
CDs	2,543,377	N/A	N/A
	$ 40,423,862		

C. Concentration of Credit Risk

The investment policy of the City contains no limitations on the amount that can be invested in any one issuer. As of September 30, 2021, other than external investment pools and securities guaranteed by the United States Government, the City did not have 5% or more of its investments with one issuer.

D. Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The Public Funds Investment Act and the City's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits.

The Public Funds Investment Act requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The fair value of the pledged securities in the collateral pool must equal at least the bank balance less the FDIC insurance of $250,000 at all times.

At September 30, 2021, the carrying amount of the City's cash on hand and deposits was $4,977,493 and the bank balance was $5,653,437. Of the bank balance, $250,000 was covered by federal depository insurance while the remaining $5,403,437 was secured with securities held by the pledging financial institution's trust department or agent in the City's name.

The City is a voluntary participant in the TexPool, LOGIC and TexasTERM external investment pools.

The State Comptroller of Public Accounts exercises responsibility over TexPool. Oversight includes the ability to significantly influence operations, designation of management, and accountability for fiscal matters. Additionally, the State Comptroller has established an advisory board composed of both Participants in TexPool and other persons who do not have a business relationship with TexPool. TexPool operates in a manner consistent with the SEC's Rule2a7 of the Investment Company Act of 1940. TexPool uses amortized cost rather than market value to report net position to compute share prices. Accordingly, the fair value of the position in TexPool is the same as the value of TexPool Shares.

LOGIC is governed by a six member board and is an AAA-rated investment program tailored to the investment needs of local governments within the state of Texas and is administered by First Southwest Asset Management, Inc. and JPMorgan Chase. LOGIC assists governments across Texas making the most of taxpayer dollars by allowing local officials to improve the return on their invested balances by pooling their money with other entities to achieve economies of scale in a conservative fund. LOGIC is a "Constant Dollar" net asset value pool and is in full compliance with the Texas Public Funds Investment Act.

TexasTERM is organized in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code, and the Public Funds Investment Act, Chapter 2256 of the Texas Government Code. A seven-member advisory board governs the Pool. As required by the Public Funds Investment Act, the Advisory Board is composed of participants in the Pool and other persons who do not have a business relationship with the Pool. Under agreement with the TexasTERM Advisory Board, PFM Asset Management LLC provides administrative and investment services to the pool. The Pool purchases only investments of the type in which Texas local governments are permitted to invest their own funds. The fair value of the position in TexasTERM is the same as the value of TexasTERM shares.

The City's external pooled funds are reported at amortized cost or net asset value as permitted by GASB Statement No. 79, Certain External Investment Pools and Pool Participants. External investment pools are exempt from fair value reporting and are, therefore, excluded from the fair value hierarchy. In addition, The City's investment pools do not have any limitations and restrictions on withdrawals such as notice periods or maximum transaction amounts. The pools do not impose any liquidity fees or redemption gates.

The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. GASB Statement No. 72, Fair Value Measurement and Application provides a framework for measuring fair value which establishes a three-level fair value hierarchy that describes the inputs that are used to measure assets and liabilities.

- Level 1 inputs are quoted prices (unadjusted) for identical assets or liabilities in active markets that a government can access at the measurement date.
- Level 2 inputs are inputs – other than quoted prices included within Level 1 – that are observable for an asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for an asset or liability.

The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs. If a price for an identical asset or liability is not observable, a government should measure fair value using another valuation technique that maximizes the use of relevant observable inputs and minimizes the use of unobservable inputs. If the fair value of an asset or a liability is measured using inputs from more than one level of the fair value hierarchy, the measurement is considered to be based on the lowest priority level input that is significant to the entire measurement.

Market values of money market accounts are based on quoted market values using Level 2 inputs. Certificates of deposit are recorded at cost plus accrued interest, and are exempt from the fair value hierarchy.

Note 3. Receivables

Accounts receivable balances for the year ended September 30, 2021, was as follows:

Governmental Funds:

	General	Debt Service	Capital Projects	Nonmajor Governmental	Total
Receivables:					
Property taxes	$ 161,043	$ 81,015	$ -	$ -	$ 242,058
Sales tax	947,907	-	-	430,417	1,378,324
Garbage	103,244	-	-	-	103,244
Ambulance	899,504	-	-	-	899,504
Franchise fees	-	-	-	-	-
Other	326,406	-	-	136	326,542
Gross receivables	2,438,104	81,015	-	430,553	2,949,672
Less: allowance for uncollectibles	(698,761)	(32,543)	-	-	(731,304)
Total net receivables	$ 1,739,343	$ 48,472	$ -	$ 430,553	$ 2,218,368

Proprietary Funds:

	Water and Sewer	Drainage Utility	Total
Receivables:			
Customer accounts	$ 2,629,760	$ 207,570	$ 2,837,330
Other	8,836.00	-	8,836
Gross receivables	2,638,596	207,570	2,846,166
Less: allowance for uncollectibles	(852,629)	(46,372)	(899,001)
Total net receivables	$ 1,785,967	$ 161,198	$ 1,947,165

Note 4. Capital Assets

Capital asset activity for the year ended September 30, 2021, was as follows:

	Balance, September 30, 2020	Additions/ Completions	Retirements/ Transfers	Balance, September 30, 2021
Governmental activities				
Capital assets, not being depreciated				
Land	$ 19,019,600	$ -	$ -	$ 19,019,600
Construction in progress	1,139,022	2,796,326	(671,361)	3,263,987
Total capital assets, not being depreciated	20,158,622	2,796,326	(671,361)	22,283,587
Capital assets being depreciated				
Buildings and improvements	21,818,209	77,635	-	21,895,844
Improvements other than buildings	735,386	27,150	-	762,536
Equipment	14,506,922	2,387,271	128,078	17,022,271
Infrastructure	35,013,227	490,158	-	35,503,385
Total capital assets, being depreciated	72,073,744	2,982,214	128,078	75,184,036
Less accumulated depreciation				
Buildings and improvements	6,159,870	436,665	-	6,596,535
Improvements other than buildings	73,043	14,717	-	87,760
Equipment	10,374,453	909,835	(503,715)	10,780,573
Infrastructure	26,528,348	1,146,844	-	27,675,192
Total accumulated depreciation	43,135,714	2,508,061	(503,715)	45,140,060
Total capital assets being depreciated, net	28,938,030	474,153	631,793	30,043,976
Governmental activities capital assets, net	$ 49,096,652	$ 3,270,479	$ (39,568)	$ 52,327,563

	Balance, September 30, 2020	Additions/ Completions	Retirements/ Transfers	Balance, September 30, 2021
Business-type Activities:				
Capital assets, not being depreciated:				
Land	$ 91,000	$ -	$ -	$ 91,000
Construction in progress	6,763,992	2,382,362	(5,339,582)	3,806,772
Total capital assets, not being depreciated	6,854,992	2,382,362	(5,339,582)	3,897,772
Capital assets, being depreciated:				
Buildings and improvements	3,353,778	-	-	3,353,778
Equipment	2,382,504	333,801	(23,906)	2,692,399
Street and drainage improvements	18,763,657	107,081	2,001,997	20,872,735
Waterworks and sewer system	24,037,996	98,126	3,337,585	27,473,707
Total capital assets, being depreciated	48,537,935	539,008	5,315,676	54,392,619
Less accumulated depreciation				
Buildings and improvements	1,317,312	63,675	-	1,380,987
Equipment	1,460,328	155,466	(21,330)	1,594,464
Street and drainage improvements	10,238,055	398,831	-	10,636,886
Waterworks and sewer system	5,201,908	419,652	-	5,621,560
Total accumulated depreciation	18,217,603	1,037,624	(21,330)	19,233,897
Total capital assets being depreciated, net	30,320,332	(498,616)	5,337,006	35,158,722
Business-type activities capital assets, net	$ 37,175,324	$ 1,883,746	$ (2,576)	$ 39,056,494

Depreciation expense was charged as direct expense to programs of the primary government as follows:

General government	$ 315,904
Public safety	435,912
Culture and recreation	279,348
Public works	1,253,360
Internal Service Fund	223,537
Total depreciation expense - Governmental Activities	$ 2,508,061
Business-type activities	
Water and wastewater	$ 574,931
Drainage	416,924
Internal Service Fund	45,769
Total depreciation expense - Business-type Activities	$ 1,037,624

During the year ended September 30, 2021, $1,327,269 and $382,310 of internal service fund capital assets were recorded in governmental activities and business-type activities, respectively, on the accompanying statement of net position. Additionally, $223,537 and $45,769 of internal service fund depreciation expense were recorded in governmental activities and business-type activities, respectively, on the accompanying statement of activities.

Construction in progress and remaining commitments under construction related construction contracts at September 30, 2021 are as follows:

Project Name	Remaining Commitment	Total in Progress
Governmental Activities		
Whitley Road - Phase 3	$ 386,360	$ 1,605,929
CDBG 44TH Year	-	$ 2,500
Whitley Road - Phase 4	39,346	397,654
Bowie Street	43,813	376,135
Park Vista Park	16,555	21,945
Arcadia Trail	-	33,347
Fire Station Remodel	210,733	782,927
Business Incubator Project	21,450	43,550
Total governmental activities	$ 718,257	$ 3,263,987
Business-type Activities:		
Water, Sewer and Drainage Projects	$ 734,287	$ 3,806,772
Total business-type activities	$ 734,287	$ 3,806,772

Note 5. Long-Term Debt

Compensated absences, OPEB and pension liabilities are generally liquidated by the General Fund, Water and Sewer Fund, and the Drainage Utility Fund.

During the fiscal year ended September 30, 2021, the City issued $1,715,000 in General Obligation Refunding Bonds with an interest rate of 1.17%. $560,000 was used to advance refund the outstanding Series 2011 Certification of Obligation Bonds in the Debt Service Fund and $1,125,000 was used to advance refund the outstanding Series 2011 Certification of Obligation Bonds in the Water and Sewer Fund. The net proceeds of $1,667,846 (after payment of issuance costs) and City contribution of $47,629 were used to pay the outstanding balance on the refunded bonds. As a result, the refunded bonds are considered defeased, and the liability for those bonds has been removed from the government-wide and proprietary statements. There is no remaining principal at September 30, 2021 related to the refunded bonds. The refunding resulted in a net present value savings of $80,852 and a gross savings of $84,268.

During the fiscal year ended September 30, 2021, the City issued Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2021 in amount of $4,540,000 with an interest rate of 2 to 4% and premiums in the amount of $271,297. The proceeds for both issuances will be used for street, utility, and park improvement projects as well as capital equipment replacements.

The following is a summary of long-term debt transactions of the City for the year ended September 30, 2021:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year	Due Within One Year
Governmental activities:					
General obligation bonds	$ 585,000	$ 575,000	$ (200,000)	$ 960,000	$ 310,000
Certificates of obligation	19,480,000	4,540,000	(2,625,000)	21,395,000	2,110,000
Tax Notes	450,000	-	(75,000)	375,000	90,000
Unamortized bond premium	762,060	271,300	(76,829)	956,531	-
Note payable	245,193	-	(71,822)	173,371	55,266
Compensated absences	2,667,766	243,539	(84,407)	2,826,898	202,970
Total governmental activities	24,190,019	5,629,839	(3,133,058)	26,686,800	2,768,236
Business-type activities:					
General obligation bonds	$ -	$ 1,140,000	$ -	$ 1,140,000	$ 220,000
Certificates of obligation	20,965,000	-	(2,100,000)	18,865,000	940,000
Unamortized bond premium	923,952	-	(76,050)	847,902	-
Compensated absences	388,517	4,901	(100,844)	292,574	210,199
Total business-type activities	22,277,469	1,144,901	(2,276,894)	21,145,476	1,370,199
Total government-wide activities	$ 46,467,488	$ 6,774,740	$ (5,409,952)	$ 47,832,276	$ 4,138,435

A. General Obligation Bonds and Certificates of Obligation

General Obligation Bonds are direct obligations issued on a pledge of the general taxing power for the payment of the debt obligations of the City. General Obligation Bonds and Certificates of Obligation require the City to compute, at the time other taxes are levied, the rate of tax required to provide (in each year bonds are outstanding) a fund to pay interest and principal at maturity. The City is in compliance with this requirement.

General obligations bonds and certificates of obligation payable at September 30, 2021, are comprised of the following individual issues:

	Governmental	Business-type
$3,400,000 Series 2007 Combination Tax and Limited Pledge Revenue Certificates of Obligation due in annual installments of $65,000 to $255,000 through February 1, 2027; interest at 4.11%.	$ 1,390,000	$ -
$7,730,000 Series 2012 Certificates of Obligation due in annual installments of $290,000 to $510,000 through February 1, 2032; interest at 3.00% to 3.25%.	-	4,810,000
$2,145,000 Series 2013 General Obligation Refunding Bonds due in annual installments of $125,000 to $270,000 through February 1, 2023; interest at 2.25%.	385,000	-
$3,500,000 Series 2014 Combination Tax and Limited Pledge Revenue Certificates of Obligation due in annual installments of $85,000 to $900,000 through February 2034; interest at 2.25% to 3.50%.	2,225,000	-
$5,885,000 Series 2016 Combination Tax and Limited Pledge Revenue Certificates of Obligation due in annual installments of $285,000 to $355,000 through February 2036; interest at 2.125% to 4.00%	4,615,000	-
$7,325,000 Series 2017 Certificates of Obligation due in annual installments of $245,000 to $480,000 through February 1, 2037; interest at 3.00%.	-	6,210,000
$6,780,000 Series 2018 Certificates of Obligation due in annual installments of $245,000 to $480,000 through February 1, 2038; interest at 3.00% to 5.00%.	5,545,000	-
$8,490,000 Series 2019 Combination Tax and Limited Pledge Revenue Certificates of Obligation due in annual installments of $195,000 to $555,000 through February 1, 2039; interest at 2.00% to 5.00%	290,000	7,845,000
$2,910,000 Series 2020 Combination Tax and Limited Pledge Revenue Certificates of Obligation due in annual installments of $115,000 to $205,000 through February 1, 2040; interest at 1.50% to 3.00%	2,790,000	-
$1,715,000 Series 2020 General Obligation Refunding Bonds due in annual installments of $115,000 to $235,000 through February 1, 2026; interest at 1.17%.	575,000	1,140,000
$4,540,000 Series 2021 Combination Tax and Limited Pledge Revenue Certificates of Obligation due in annual installments of $185,000 to $295,000 through February 1, 2041; interest at 2.00% - 4.00%.	4,540,000	
Total bonds payable	$ 22,355,000	$ 20,005,000

Notes payable at September 30, 2021, are comprised of the following:

	Governmental
Note payable to City of North Richland Hills annual installments of $63,068, including interest at 4.5%, maturing October 2024.	$ 173,371
Total notes payable	$ 173,371

Tax notes at September 30, 2021, are comprised of the following individual issues:

	Governmental
$450,000 Series 2020 Tax Note due in annual installments of $75,000 to $100,000 through February 1, 2025; interest at 3.50%	$ 375,000
Total tax notes	$ 375,000

B. Annual Requirements to Retire Debt Obligations

The annual aggregate maturities for each type of debt obligation for the years subsequent to September 30, 2021, are as follows:

General Obligation Bonds

	Governmental Activities		Business-type Activities		
	Principal	Interest	Principal	Interest	Total
2022	$ 310,000	$ 12,524	$ 220,000	$ 12,051	$ 554,575
2023	305,000	6,847	225,000	9,448	546,295
2024	115,000	22,883	225,000	6,815	369,698
2025	115,000	2,018	235,000	4,124	356,142
2026	115,000	673	235,000	1,375	352,048
	$ 960,000	$ 44,945	$ 1,140,000	$ 33,813	$ 2,178,758

Certificates of Obligation

	Governmental Activities		Business-type Activities		
	Principal	Interest	Principal	Interest	Total
2022	$ 2,110,000	$ 611,316	$ 940,000	$ 550,148	$ 4,211,464
2023	1,445,000	543,323	975,000	517,312	3,480,635
2024	1,390,000	492,116	1,005,000	480,723	3,367,839
2025	1,380,000	437,138	1,035,000	448,242	3,300,380
2026	1,420,000	389,924	1,075,000	413,935	3,298,859
2027-2031	5,825,000	1,350,730	6,505,000	1,425,246	15,105,976
2032-2036	5,455,000	628,529	5,215,000	582,226	11,880,755
2037-2041	2,370,000	102,587	2,115,000	65,855	4,653,442
	$ 21,395,000	$ 4,555,663	$ 18,865,000	$ 4,483,687	$ 49,299,350

Tax Notes

	Governmental Activities		
	Principal	Interest	Total
2022	$ 90,000	$ 11,550	$ 101,550
2023	90,000	8,400	98,400
2024	95,000	5,163	100,163
2025	100,000	1,750	101,750
	$ 375,000	$ 26,863	$ 401,863

Notes Payable

	Governmental Activities		
	Principal	Interest	Total
2022	55,266	7,802	63,068
2023	57,753	5,315	63,068
2024	60,352	2,716	63,068
	$ 173,371	$ 15,833	$ 189,204

Note 6. Interfund Receivables, Payables, and Transfers

All interfund transfers between the various funds are approved supplements to the operations of those funds. At September 30, 2021, transfers in/out for governmental and proprietary funds are as follows:

Transfers In	Transfers Out	Amounts
General Fund	Nonmmajor Fund	$ 222,281
General Fund	Drainage Utility Fund	73,500
General Fund	Nonmmajor Fund	30,000
General Fund	Water and Sewer Fund	430,000
Capital Projects Fund	General Fund	100,000
Debt Service Fund	Nonmmajor Fund	157,503
Internal service fund	Water and Sewer Fund	89,000
		$ 1,102,284

Transfers are primarily used to move funds to:

- General Fund from Nonmajor Fund for Staffing and Reimbursement allocation to recover personnel and administrative costs the City provides for the benefit of the Corporation.
- Debt Service Fund from Nonmajor Fund for the payment of debt service requirements for authorized WEDC funded projects.
- General Fund from Drainage Utility Fund for General and Administrative charges. A percent of fund revenues (less interest income) to pay for general charges that the General Fund pays for but services used also by other funds.

- General Fund from Nonmajor Fund for General and Administrative charges. A percent of fund revenues (less interest income) to pay for general charges that the General Fund pays for but services used also by other funds.

- General Fund from Water and Sewer Fund for General and Administrative charges. A percent of fund revenues (less interest income) to pay for general charges that the General Fund pays for but services are also used by other funds.

- Capital Projects Fund from the General Fund for the payment of sidewalk replacements.

- Internal Service Fund from the Water and Sewer Fund for payment of general and administrative charges.

Note 7. Pension Plan

The City of Watauga, Texas participates as one of 895 plans in the defined benefit cash-balance plan administered by the Texas Municipal Retirement System (TMRS). TMRS is a statewide public retirement plan created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for employees of Texas participating cities. The TMRS Act places the general administration and management of TMRS with a six-member, Governor-appointed Board of Trustees; however, TMRS is not fiscally dependent on the State of Texas. TMRS issues a publicly available Annual Annual Comprehensive Financial Report(Annual Report) that can be obtained at www.tmrs.com.

All eligible employees of the city are required to participate in TMRS.

A. Benefits Provided

TMRS provides retirement, disability, and death benefits. Benefit provisions are adopted by the governing body of the city, within the options available in the state statutes governing TMRS.

At retirement, the Member's benefit is calculated based on the sum of the Member's contributions, with interest, and the city-financed monetary credits with interest. The retiring Member may select one of seven monthly benefit payment options. Members may also choose to receive a portion of their benefit as a Lump Sum Distribution in an amount equal to 12, 24, or 36 monthly payments, which cannot exceed 75% of the total Member contributions and interest.

The plan provisions are adopted by the City Council, within the options available in the state statutes governing TMRS. Plan provisions for the City were as follows:

Employee deposit rate	7.00%
Matching ration (city to employee)	2 to 1
Years required for vesting	5
Updated Service Credit	100% Repeating Transfers
Annuity Increase (to retirees)	70% of CPI Repeating

Members can retire at ages 60 and above with 5 or more years of service or with 20 years of service regardless of age.

B. Employees covered by benefit terms

At the December 31, 2020 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	118
Inactive employees entitled to but not yet receiving benefits	163
Active employees	150
	431

C. Contributions

Member contribution rates in TMRS are either 5%, 6%, or 7% of the Member's total compensation, and the city matching percentages are either 100%, 150%, or 200%, both as adopted by the governing body of the city. Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Entry Age Normal (EAN) actuarial cost method. The city's contribution rate is based on the liabilities created from the benefit plan options selected by the city and any changes in benefits or actual experience over time.

Employees for the City were required to contribute 7.00% of their annual compensation during the fiscal year. The contribution rates for the City were 14.20% and 14.79% in calendar years 2020 and 2021, respectively. The city's contributions to TMRS for the year ended September 30, 2021 were $1,462,002, and were equal to the required contributions.

D. Net Pension Liability

The city's Net Pension Liability (NPL) was measured as of December 31, 2020, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

Actuarial assumptions
The Total Pension Liability in the December 31, 2020 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.50% per year
Overall payroll growth	2.05% per year, adjusted down for population declines, if any
Investment Rate of Return	6.75%, net of pension plan investment expense, including inflation

Salary increases are based on a service-related table. Mortality rates for active members are based on the PUB(10) mortality tables with the Public Safety table used for males and the General Employee table used for females. Mortality rates for healthy retirees and beneficiaries are based on the Gender-distinct 2019 Municipal Retirees of Texas mortality tables. The rates for actives, healthy retirees and beneficiaries are projected on a fully generational basis by Scale UMP to account for future mortality improvements. For disabled annuitants, the same mortality tables for healthy retirees are used with a 4-year set-forward for males and a 3-year set-forward for females. In addition, a 3.5% and 3.0% minimum mortality rate is applied, for males and females respectively, to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by Scale UMP to account for future mortality improvements subject to the floor.

The actuarial assumptions were developed primarily from the actuarial investigation of the experience of TMRS over the four-year period from December 31, 2014 to December 31, 2018. They were adopted in 2019 and first used in the December 31, 2019 actuarial valuation. The post-retirement mortality assumption for Annuity Purchase Rates (APRs) is based on the Mortality Experience Investigation Study covering 2009 through 2011 and dated December 31, 2013. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income in order to satisfy the short-term and long-term funding needs of TMRS.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, GRS focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive).

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Global Equity	30.0%	5.30%
Core Fixed Income	10.0%	1.25%
Non-Core Fixed Income	20.0%	4.14%
Real Return	10.0%	3.85%
Real Estate	10.0%	4.00%
Absolute Return	10.0%	3.48%
Private Equity	10.0%	7.75%
Total	100.0%	

Discount Rate

The discount rate used to measure the Total Pension Liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that Member and employer contributions will be made at the rates specified in statute. Based on that assumption, the pension plan's Fiduciary Net Position was projected to be available to make all projected future benefit payments of current active and inactive Members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability.

Changes in Net Pension Liability

	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balance at December 31, 2019	$ 55,591,653	$ 50,704,110	$ 4,887,543
Changes for the year:			
Service cost	1,745,597	-	1,745,597
Interest (on the Total Pension Liability)	3,748,335	-	3,748,335
Difference between expected and actual experience	(140,317)	-	(140,317)
Changes of assumptions	-	-	-
Contributions - employer	-	1,450,407	(1,450,407)
Contributions - employee	-	714,990	(714,990)
Net investment income	-	3,849,392	(3,849,392)
Benefit payments, including refunds of employee contributions	(2,267,132)	(2,267,132)	-
Administrative expense	-	(24,904)	24,904
Other	-	(972)	972
Balance at December 31, 2020	$ 58,678,136	$ 54,425,891	$ 4,252,245

Sensitivity of the net pension liability to changes in the discount rate
The following presents the net pension liability of the City, calculated using the discount rate of 6.75%, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.75%) or 1-percentage-point higher (7.75%) than the current rate:

	1% Decrease (5.75%)	Current Single Rate Assumption (6.75%)	1% Increase (7.75%)
City's net pension liability	$ 13,676,509	$ 4,452,245	$ (3,003,253)

E. Pension Plan Fiduciary Net Position

Detailed information about the pension plan's Fiduciary Net Position is available in the Schedule of Changes in Fiduciary Net Position by Participating City. That report may be obtained at www.tmrs.com.

F. Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended September 30, 2021 the city recognized pension expense of $984,882.

At September 30, 2021, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences in expected and actual experience	$ 81,495	$ -
Difference in assumption changes	75,416	-
Difference in projected and actual earnings on pension plan investments	-	(1,439,231)
Employer contributions made after the measurement date	1,062,312	-
Totals	$ 1,219,223	$ (1,439,231)

$1,062,312 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2022. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Fiscal Year	Net Deferred Outflows (Inflows) of Resources
2022	$ (383,681)
2023	42,829
2024	(856,096)
2025	(85,372)
Totals	$ (1,282,320)

Note 8. Other Postemployment Benefits

A. TMRS Supplemental Death Benefits Plan

Benefit Plan Description

The City contributes to a single-employer defined benefit group term life insurance plan known as the Supplemental Death Benefits Fund (SDBF). Texas Municipal Retirement System (TMRS) administers a defined benefit group-term life insurance plan. This is a voluntary program in which participating member cities may elect, by ordinance, to provide group-term life insurance coverage for their active members, including or not including retirees. The death benefit for active employees provides a lump-sum payment approximately equal to the employee's annual salary (calculated based on the employee's actual earnings, for the 12-month period preceding the month of death). The death benefit for retirees is considered another postemployment benefit (OPEB) and is a fixed amount of $7,500. As the SDBF covers both active and retiree participants, with no segregation of assets, the SDBF is considered to be an unfunded OPEB plan (i.e. no assets are accumulated).

The member city contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation. The rate is equal to the cost of providing one-year term life insurance. The funding policy for the SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year. The intent is not to pre-fund retiree term life insurance during employees' entire careers.

Membership in the plan as of the measurement date of December 31, 2020 was as follows:

Inactive employees or beneficiaries currently receiving benefits	71
Inactive employees entitled to but not yet receiving benefits	33
Active employees	150
Total	254

Contributions

Contributions are made monthly based on the covered payroll of employee members of the participating member city. The contractually required contribution rate is determined annually for each city (currently 0.17% of covered payroll). The rate is based on the mortality and service experience of all employees covered by the SDBF and the demographics specific to the workforce of the city. There is a one-year delay between the actuarial valuation that serves as the basis for the employer contribution rate and the calendar year when the rate goes into effect. The funding policy of this plan is to assure that adequate resources are available to meet all death benefit payments for the upcoming year; the intent is not to prefund retiree term life insurance during employees' entire careers. As such, contributions are utilized to fund active member deaths on a pay-as-you-go basis; any excess contributions and investment income over payments then become net position available for benefits.

Discount Rate

The TMRS SDBF program is treated as unfunded OPEB plan because the SDBF trust covers both actives and retirees and the assets are not segregated for these groups. Under GASB 75, the discount rate for an unfunded OPEB plan should be based on 20-year tax-exempt AA or higher Municipal Bonds. Therefore, a discount rate of 2.00% based on the 20 Year Bond GO Index published by bondbuyer.com is used as of the measurement date of December 31, 2020.

Actuarial Assumptions

The City's Total OPEB Liability (TOL) was measured at December 31, 2020 and was determined by an actuarial valuation as of that date using the following actuarial assumptions:

Actuarial Cost Method	Entry Age Normal
Inflation	2.50%
Salary Increases	3.50% to 11.50% including inflation
Discount Rate	2.00%

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct 2019 Municipal Retirees of Texas mortality tables and due to the size of the City, rates are multiplied by an additional factor of 100%. . The rates are projected on a fully generational basis by Scale UMP to account for future mortality improvements. For disabled annuitants, the mortality tables for healthy retirees is used with a 4 year set-forward for males and a 3 year set-forward for females. In addition, a 3.5% and 3% minimum mortality rate is applied to reflect the impairment for younger members who become disabled for males and females, respectively. The rates are projected on a fully generational basis by Scale UMP to account for future mortality improvements subject to the floor. Mortality rates for pre-retirement were based on the PUB(10) mortality tables, with the Public Safety table used for males and General Employee table used for females. The rates are projected on a fully generational basis by Scale UMP to account for future mortality improvements.

Changes in Total OPEB Liability

	Total OPEB Liability
Balance at December 31, 2019	$ 537,459
Changes for the year:	
Service cost	27,578
Interest (on the Total OPEB Liability)	15,117
Difference between expected and actual experience	(17,439)
Changes of assumptions	86,019
Benefit payments	(3,064)
Balance at December 31, 2020	$ 645,670

Sensitivity Analysis

The following presents the Total OPEB Liability of the employer, calculated using the discount rate of 2.00%, as well as what the City's Total OPEB Liability would be if it were calculated using a discount rate that is 1 percentage point lower (1.00%) or 1 percentage point higher (3.00%) than the current rate. Note that the healthcare cost trend rate does not affect the Total OPEB Liability, so sensitivity to the healthcare cost trend rate is not shown.

1% Decrease 1.00%	Current Single Rate Assumption 2.00%	1% Increase 3.00%
$ 787,874	$ 645,670	$ 534,380

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended September 30, 2021, the City recognized OPEB expense of $64,197 relating to the SDBF plan.

As of September 30, 2021, the City reported deferred outflows of resources and deferred inflows of resources related to SDBF OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences in expected and actual experience	$ -	$ (35,974)
Differences in assumption changes	123,814	-
Employer contributions made after the measurement date	6,387	-
		-
Totals	$ 130,201	$ (35,974)

The $6,387 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the OPEB liability in the year ending September 30, 2022.

Amounts currently reported as deferred outflows of resources related to OPEBs, excluding contributions subsequent to the measurement date, will be recognized in OPEB expense as follows:

Fiscal Year	Net Deferred Outflows (Inflows) of Resources
2022	$ 21,501
2023	19,906
2024	17,767
2025	21,538
2026	7,128
Total	$ 87,840

B. City of Watauga Retiree Health Care Plan

Plan description
The City's defined benefit OPEB plan, City of Watauga Retiree Health Care Plan (WHCP), provides OPEB through an implicit healthcare premium for retirees for all permanent full-time employees of the City. WHCP is a single-employer defined benefit OPEB plan administered by the City. At this time, no assets are accumulated in a trust to fund the future requirements of the WHCP.

Benefits provided
WHCP provides access to post retirement employees by offering a "blended premium" structure, that is, the overall health care premiums for active employees and non-Medicare retirees, are stated in terms of a single "blended premium". The difference between the underlying retiree claims and the blended overall health care premium is referred to as an "implicit" subsidy. Because the underlying claims costs for a non-Medicare retiree are on average higher than the blended premium, there is a positive implicit subsidy for the non-Medicare retirees.

Employees covered by benefit terms. At September 30, 2021, the following employees were covered by the benefit terms:

Retirees and beneficiaries	6
Active members	138
Total	144

Total OPEB Liability
The City's total OPEB liability of $1,137,252 was measured as of December 31, 2020, and was determined by an actuarial valuation as of December 31, 2019 rolled forward to the measurement date.

Actuarial Assumptions
The total OPEB liability in the December 31, 2019 actuarial valuation (rolled forward to December 31, 2020) was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Actuarial Cost Method	Individual Entry-Age
Inflation	2.50%
Salary Increases	3.50% to 11.50%, including inflation
Discount Rate	2.00%

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct 2019 Municipal Retirees of Texas mortality tables and due to the size of the City, rates are multiplied by an additional factor of 100%. . The rates are projected on a fully generational basis by Scale UMP to account for future mortality improvements. For disabled annuitants, the mortality tables for healthy retirees is used with a 4 year set-forward for males and a 3 year set-forward for females. In addition, a 3.5% and 3% minimum mortality rate is applied to reflect the impairment for younger members who become disabled for males and females, respectively. The rates are projected on a fully generational basis by Scale UMP to account for future mortality improvements subject to the floor. Mortality rates for pre-retirement were based on the PUB(10) mortality tables, with the Public Safety table used for males and General Employee table used for females. The rates are projected on a fully generational basis by Scale UMP to account for future mortality improvements.

Discount Rate
Because the WHCP is unfunded or pay-as-you go, the discount rate is based on 20 year tax-exempt AA or higher Municipal Bonds or 2.00% as of the measurement date of December 31, 2020 based on the 20 Year Bond GO Index published by bondbuyer.com.

Changes in the Total OPEB Liability

	Total OPEB Liability
Balance at December 31, 2019	$ 1,015,393
Changes for the year:	
Service cost	45,223
Interest (on the Total OPEB Liability)	27,887
Difference between expected and actual experience	10,060
Changes of assumptions	86,582
Benefit payments	(47,893)
Balance at December 31, 2020	$ 1,137,252

Changes of assumptions reflect a change in the discount rate from 2.75% as of December 31, 2019 to 2.00% as of December 31, 2020, revised TMRS demographic and salary increase assumptions, and updates to the health care trend assumption to better reflect the plan's anticipated experience.

Sensitivity of the total OPEB liability to changes in the discount rate
The following presents the plan's total OPEB liability, calculated using a discount rate of 2.00%, as well as what the plan's total OPEB liability would be if it were calculated using a discount rate that is one percent lower or one percent higher:

1% Decrease 1.00%	Current Single Rate Assumption 2.00%	1% Increase 3.00%
$ 1,263,505	$ 1,137,252	$ 1,023,145

Sensitivity of the total OPEB liability to changes in the healthcare cost trend rates
The following presents the plan's total OPEB liability, calculated using the assumed trend rates as well as what the plan's total OPEB liability would be if it were calculated using a trend rate that is one percent lower or one percent higher:

1% Decrease	Current Healthcare Cost Trend Rate Assumption	1% Increase
$ 987,532	$ 1,137,252	$ 1,317,832

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB
For the year ended September 30, 2021, the City recognized OPEB expense of $80,139. At September 30, 2021, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences in expected and actual experience	$ -	$ (101,255)
Differences in assumption changes	180,330	(26,229)
Employer contributions made after the measurement date	31,782	-
Totals	$ 212,112	$ (127,484)

The $31,782 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the OPEB liability in the year ending September 30, 2022.

Amounts currently reported as deferred outflows of resources related to OPEBs, excluding contributions subsequent to the measurement date, will be recognized in OPEB expense as follows:

Fiscal Year	Net Deferred Outflows (Inflows) of Resources
2022	$ 7,029
2023	7,029
2024	7,029
2025	7,029
2026	4,179
Thereafter	20,551
Total	$ 52,846

Note 9. Risk Management

The City is exposed to various risks of loss related to torts such as: theft of, damage to, and destruction of assets, errors and omissions, injuries to employees, and natural disasters. The City participates in the Texas Municipal League Intergovernmental Risk Pool (Risk Pool) to provide general liability and property insurance and workers' compensation.

The City, along with other participating entities, contributes annual amounts determined by the Risk Pool. Contributions to the Risk Pool for workers' compensation are based on the City's payroll. As claims arise they are submitted to and paid by the Risk Pool.

The liability of the Texas Municipal League Intergovernmental Risk Pool is limited to a $2,000,000 annual aggregate for general liability, errors and omissions, and law enforcement. The automobile liability limit for the risk pool is $1,000,000 for each occurrence.

There have been no significant changes in insurance coverage as compared to last year. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

Note 10. Litigation

Various claims and lawsuits are pending against the City of Watauga. In the opinion of the City's Legal Counsel and Management, the potential losses will not have a material effect on the City's financial statements.

Note 11. Operating Lease

The City is committed under various noncancelable operating leases, primarily for equipment (principally in the General Fund). Lease and rental expenditures were $50,622 for the year ended September 30, 2021.

Note 12. Fund Balance Restrictions

Amounts that can be spent only for specific purposes because of local, state or federal laws, or externally imposed conditions by grantors or creditors are classified as restricted fund balance. A summary of restricted fund balance in the governmental funds at September 30, 2021, follows:

	Debt Service Funds	Capital Projects Fund	Non Major Governmental Funds	Total
Capital acquisitions and contractual obligations	$ -	$ 11,248,863	$ 38,660	$ 11,287,523
Debt service	758,689	-	-	758,689
Culture and recreation:				
Park improvements	-	-	1,629,929	1,629,929
Library purposes	-	-	56,357	56,357
	-	-	1,686,286	1,686,286
Public works:				
PEG Fees	-	-	82,280	82,280
Street maintenance	-	-	1,501,910	1,501,910
	-	-	1,584,190	1,584,190
Public safety:				
Law enforcement	-	-	1,044,918	1,044,918
Municipal court operations	-	-	246,120	246,120
	-	-	1,291,038	1,291,038
Total	$ 758,689	$ 11,248,863	$ 4,600,174	$ 16,607,726

Note 13. Subsequent Events

On November 8, 2021, the City Council approved the issuance of $4,200,000 of General Obligation Refunding Bonds, Series 2021, with interest rates ranging from 2% to 4% and maturities through 2032, for the purpose of refunding certain of the City's currently outstanding obligations for debt service savings, and to pay costs of issuance and expenses relating to the Bonds.

Required Supplementary Information

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City of Watauga, Texas
Budgetary Comparison Schedule
General Fund
Year Ended September 30, 2021

	Original	Final	Actual Amounts	Variance with Final Budget Positive (Negative)
Revenues				
Taxes and franchise fees	$ 9,953,500	$ 10,258,500	$ 10,503,946	$ 245,446
Licenses and permits	531,000	691,000	776,817	85,817
Charges for services	851,800	851,800	901,900	50,100
Fines and forfeitures	515,900	515,900	568,795	52,895
Interest income	50,600	50,600	12,909	(37,691)
Intergovernmental	502,600	502,600	503,500	900
Miscellaneous	693,350	593,350	626,455	33,105
Total revenues	13,098,750	13,463,750	13,894,322	430,572
Expenditures				
Current:				
Administration	492,977	560,977	526,130	34,847
Non-departmental	1,159,810	1,159,810	952,216	207,594
Human resources	182,169	182,169	174,205	7,964
Finance	500,247	500,247	484,178	16,069
Information Technology	402,909	402,909	371,962	30,947
Municipal Court	401,730	401,730	401,371	359
Library	882,480	882,480	811,551	70,929
Recreation and community services	882,505	882,505	705,497	177,008
Police	4,054,124	4,054,124	3,859,755	194,369
Fire/EMS	3,013,152	3,013,152	2,783,103	230,049
Public works	744,277	829,277	771,315	57,962
Fleet maintenance	204,900	204,900	193,814	11,086
Buildings	834,740	877,740	819,209	58,531
Total expenditures	13,756,020	13,952,020	12,854,306	1,097,714
Excess (deficiency) of revenues over expenditures	(657,270)	(488,270)	1,040,016	1,528,286
Other Financing Sources (Uses)				
Transfers in	765,281	765,281	755,781	-
Transfers out	(100,000)	(100,000)	(100,000)	-
Total other financing sources and uses	665,281	665,281	655,781	-
Net change in fund balances	8,011	177,011	1,695,797	1,528,286
Fund balance, beginning of year	5,339,364	5,339,364	5,339,364	-
Fund balance, end of year	$ 5,347,375	$ 5,516,375	$ 7,035,161	$ 1,528,286

BUDGETARY CONTROLS AND PROCEDURES

The City Charter follows these procedures in establishing the budgetary data reflected in the financial statements:

- Prior to August 1, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following October 1. The operating budget includes proposed expenditures/expenses and the means of financing them.

- The proposed budget and all supporting schedules are filed with the City Secretary when submitted to City Council.

- Public hearings are conducted to obtain taxpayer comments.

- Prior to September 15, the budget is adopted by affirmative vote of at least two thirds of the members of the City Council.

- The City Manager is authorized to transfer budgeted amounts between programs within a department; however, any revisions that alter the total expenditures of any department must be approved by the City Council.

- If at any time during a fiscal year, it is estimated by the City Manager that current year's expenditures in any fund will exceed available revenues (including fund balance at the start of the year), the City Manager shall recommend measures to the City Council to ensure that a positive fund balance is maintained.

- Budgets for the General, WEDC Sales Tax, Watauga Crime Control and Prevention, Library Donation, Municipal Court Security, Municipal Court Technology, Municipal Court Truancy, Traffic Safety, Street Maintenance Sales Tax, PEG, Debt Service and Enterprise funds are adopted on a basis consistent with generally accepted accounting principles. Budgeted amounts are as amended by the City Council. Such appropriations lapse at year-end.

- Budgetary data for the Capital Projects Fund has not been presented in the accompanying financial statements as such funds are budgeted over the life of the respective project and not on an annual basis. Accordingly, formal budgetary integration of the Capital Projects Fund is employed and comparison of actual results of operations to budgetary data for such funds is not presented.

- Formal budgetary integration is employed as a management control device during the year for the General Fund, Special Revenue Funds, Debt Service Funds and Enterprise Funds. Budgetary control is maintained at the departmental level.

- Budgetary data for the Enterprise Funds has not been presented since the reporting on such budgets is not legally required. Budgetary control is maintained at the departmental level.

City of Watauga, Texas

Schedule of Changes in Net Pension Liability and Related Ratios

Last Seven Measurement Years

	Year Ended December 31						
	2014	2015	2016	2017	2018	2019	2020
TOTAL PENSION LIABILITY							
Service cost	$ 1,278,209	$ 1,484,819	$ 1,513,714	$ 1,531,337	$ 1,577,540	$ 1,705,104	$ 1,745,597
Interest (on the total pension liability)	2,632,122	2,804,072	2,907,277	3,067,400	3,256,548	3,483,534	3,748,335
Difference between expected and actual experience	(422,782)	(273,667)	(570,355)	(100,072)	22,136	441,878	(140,317)
Changes of assumptions	-	60,403	-	-	-	188,822	-
Benefit payments, including refunds of employee contributions	(1,197,706)	(1,071,136)	(1,083,810)	(1,890,714)	(1,548,423)	(1,566,087)	(2,267,132)
Net change in total pension liability	2,289,843	3,004,491	2,766,826	2,607,951	3,307,801	4,253,251	3,086,483
Total pension liability, beginning	37,561,490	39,851,333	42,855,824	45,622,650	48,230,601	51,538,402	55,791,653
TOTAL PENSION LIABILITY, ending (a)	$ 39,851,333	$ 42,855,824	$ 45,622,650	$ 48,230,601	$ 51,538,402	$ 55,791,653	$ 58,878,136
PLAN FIDUCIARY NET POSITION							
Contributions - employer	$ 1,115,845	$ 1,245,119	$ 1,197,145	$ 1,259,752	$ 1,289,939	$ 1,342,209	$ 1,450,407.0
Contributions - employee	609,276	652,873	636,779	642,263	664,427	695,961	714,990
Net investment income	1,871,755	51,790	2,428,960	5,418,502	(1,332,865)	6,732,579	3,849,392
Benefit payments, including refunds of employee contributions	(1,197,706)	(1,071,136)	(1,083,810)	(1,890,714)	(1,548,423)	(1,566,087)	(2,267,132)
Administrative expense	(19,541)	(31,544)	(27,433)	(28,079)	(25,758)	(38,033)	(24,904)
Other	(1,607)	(1,558)	(1,478)	(1,423)	1,155	(3,642)	(972)
Net change in plan fiduciary net position	2,378,022	845,544	3,150,163	5,400,301	(951,525)	7,162,987	3,721,781
Plan fiduciary net position, beginning	32,718,618	35,096,640	35,942,184	39,092,347	44,492,648	43,541,123	50,704,110
PLAN FIDUCIARY NET POSITION, ending (b)	$ 35,096,640	$ 35,942,184	$ 39,092,347	$ 44,492,648	$ 43,541,123	$ 50,704,110	$ 54,425,891
NET PENSION LIABILITY/ (ASSET), ending (a) - (b)	$ 4,754,693	$ 6,913,640	$ 6,530,303	$ 3,737,953	$ 7,997,279	$ 5,087,543	$ 4,452,245
Plan fiduciary net position as a percentage of total pension liability	88.07%	83.87%	85.69%	92.25%	84.48%	90.88%	92.44%
Covered Payroll	$ 8,703,943	$ 9,326,755	$ 9,096,836	$ 9,175,179	$ 9,491,816	$ 9,942,297	$ 10,214,144
Net pension liability as a percentage of covered payroll	54.63%	74.13%	71.79%	40.74%	84.25%	51.17%	43.59%

Only seven years of data is presented in accordance with GASB 68, paragraph 138. "The information for all periods for the 10-year schedules that are required to be presented as required supplementary information may not be available initially. In these cases, during the transition period, that information should be presented for as many years as are available. The schedules should not include information that is not measured in accordance with the requirements of this Statement. Additional years' information will be displayed as it becomes available."

City of Watauga, Texas

Schedule of Pension Contributions

Last Ten Fiscal Years

	Year Ended September 30									
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Actuarially Determined Contribution	$ 1,129,470	$ 1,082,831	$ 1,108,798	$ 1,190,315	$ 1,194,583	$ 1,259,325	$ 1,274,565	$ 1,332,221	$ 1,459,430	$ 1,462,002
Contributions in relation to the actuarially determined contribution	1,129,470	1,082,831	1,108,798	1,190,315	1,194,583	1,259,325	1,274,565	1,332,221	1,459,430	1,462,002
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Covered payroll	$ 8,852,583	$ 8,473,213	$ 8,638,774	$ 9,005,317	$ 9,040,337	$ 9,169,310	$ 9,351,625	$ 9,849,847	$ 10,293,449	$ 9,877,694
Contributions as a percentage of covered payroll	12.76%	12.78%	12.84%	13.22%	13.21%	13.73%	13.63%	13.53%	14.18%	14.80%

Notes: Actuarially determined contribution rates are calculated as of December 31st and become effective in January 13 months later.

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method	Entry Age Normal
Amortization Method Level	Level Percentage of Payroll, Closed
Remaining Amortization Period	25 years
Asset Valuation Method	10 Year smoothed market; 12% soft corridor
Inflation	2.50%
Salary Increases	3.50% to 11.50% including inflation
Investment Rate of Return	6.75%
Retirement Age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2019 valuation pursuant to an experience study of the period 2014 - 2018
Mortality	Post-retirement: 2019 Municipal Retirees of Texas Mortality Tables. The rates are projected on a fully generational basis with scale UMP. Pre-retirement: PUB(10) mortality tables, with the Public Safety table used for males and the General Employee table used for females. The rates are projected on a fully generational basis with scale UMP.

Other Information:

Notes	There were no benefit changes during the year.

City of Watauga, Texas

Schedule of Changes in Total OPEB Liability and Related Ratios
Last Four Measurement Years

Texas Municipal Retirement System - Supplemental Death Benefit Plan

	Year Ended December 31			
	2017	2018	2019	2020
Total OPEB Liability				
Service cost	$ 20,185	$ 24,679	$ 20,879	$ 27,578
Interest	14,766	15,283	16,178	15,117
Difference between expected and actual experience	-	(28,476)	(12,399)	(17,439)
Change in assumptions	36,678	(32,318)	88,671	86,019
Benefit payments, including refunds of employee contributions	(2,753)	(2,848)	(2,983)	(3,064)
Net change in total OPEB liability	68,876	(23,680)	110,346	108,211
Total OPEB liability, beginning	381,917	450,793	427,113	537,459
Total OPEB Liability, ending	$ 450,793	$ 427,113	$ 537,459	$ 645,670
Covered Payroll	$ 9,175,179	$ 9,491,816	$ 9,942,297	$ 10,214,144
Total OPEB liability as a percentage of covered payroll	4.91%	4.50%	5.41%	6.32%

City of Watauga, Texas Retiree Health Plan

	Year Ended December 31			
	2017	2018	2019	2020
Total OPEB Liability				
Service cost	$ 36,285	$ 41,530	$ 40,468	45,223
Interest	35,912	34,038	37,486	27,887
Difference between expected and actual experience	-	(10,983)	(134,664)	10,060
Change in assumptions	49,341	(40,515)	101,448	86,582
Benefit payments, including refunds of employee contributions	(32,844)	(43,918)	(39,042)	(47,893)
Net change in total OPEB liability	88,694	(19,848)	5,696	121,859
Total OPEB liability, beginning	940,851	1,029,545	1,009,697	1,015,393
Total OPEB Liability, ending	$ 1,029,545	$ 1,009,697	$ 1,015,393	$ 1,137,252
Covered Payroll	$ 9,013,440	$ 9,791,192	$ 9,769,698	$ 10,128,852
Total OPEB liability as a percentage of covered payroll	3.89%	3.89%	10.39%	11.23%

GASB 75, Paragraph 97, requires that the information on this schedule be data from the period corresponding with the period covered as of the measurement date of December 31, 2020 - the period from January 1, 2020 - December 31, 2020.

Only four years of data is presented in accordance with GASB 75 paragraph 245. "The information for all periods for the 10-year schedules that are required to be presented as required supplementary information may not be available initially. In these cases, during the transition period, that information should be presented for as many years as are available. The schedules should not include information that is not measured in accordance with the requirements of this Statement. Additional years' information will be displayed as it becomes available."

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Combining and Individual Fund Statements and Schedules

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Non-Major Governmental Funds

SPECIAL REVENUE FUNDS

Special Revenue Funds account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes.

Watauga Economic Development Corporation (WEDC) Sales Tax Fund – to account for a quarter-cent sales tax increase, approved by voters, encourage the development and advance of City businesses, development and parks within the City.

Watauga Crime Control and Prevention Fund – to account for a half-cent sales tax increase approved by the voters to enhance law enforcement in Watauga.

Library Donation Fund – to account for public donations made to the City specifically for the benefit of the public library.

Municipal Court Security Fund – to account for a fee established in the 1997 Texas Legislative session to allow a $3 assessment on all court fines paid. This assessment allows municipalities to purchase security equipment such as surveillance cameras, bulletproof glass and bailiff costs for Municipal Court areas. In January 2020, SB346 increased this assessment to $4.90.

Municipal Court Technology Fund – to account for a fee established in the 1997 Texas legislative session to allow a $4 assessment on all court fines paid. This assessment allows municipalities to purchase and maintain technology equipment such as computer hardware and software for the benefit of the Municipal Court.

Municipal Court Truancy Fund – to account for a fee established and approved by City Council January 28, 2008 to allow a $5 assessment per misdemeanor offense. Fees are paid out of this fund to pay personnel costs of the Municipal Court Juvenile Case Manager.

Traffic Safety Fund – to account for civil or administrative penalties to no more than $75 and late penalties to no more than $25. Legislation passed by 80th Texas Legislature allowed a local government entity to use a photographic traffic signal enforcement system. Effective June 2019, legislation passed by the 86th Legislature, use of photographic traffic signal enforcement was banned. The City will use fund balance for the traffic safety programs until funds are exhausted.

Street Maintenance Sales Tax Fund – to account for a quarter-cent sales tax approved by voters on May 12, 2012 for an initial four years effective October 1, 2012, and reauthorized in May 2016. The purpose of the sales tax is to provide for the maintenance and repair of municipal streets in existence at the time of the vote. On January 1, 2021, this tax was abolished due to a ballot measure in November 2020.

PEG Fund – to account for the expenditures for Public, Educational, and Government (PEG) Access programming is supported by the PEG fee that is assessed to each cable subscriber.

Jury Fees Fund – to account for a fee established in January 2020 with the passage of SB346. These fees are assessed at $0.10 upon conviction of any fine-only misdemeanor, including a parking or pedestrian offense. The fee is used to fund juror reimbursements and finance jury service.

Non-Major Governmental Funds

CAPITAL PROJECTS FUNDS

Capital projects funds are used to account for the acquisition and construction of major capital facilities other than those financed by proprietary funds and trust funds.

Watauga Economic Development Corporation (WEDC) Construction Fund – to account for construction projects in and for the Economic Development Corporation.

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City of Watauga, Texas
Combining Balance Sheet
Non-Major Governmental Funds
September 30, 2021

	WEDC Sales Tax Fund	Watauga Crime Control and Prevention Fund	Library Donation Fund	Municipal Court Security Fund	Municipal Court Technology Fund
ASSETS					
Cash and cash equivalents	$ 1,485,286	$ 787,876	$ 56,221	$ 29,720	$ 134,251
Investments	-	23,621	-	-	-
Account receivable	148,371	282,046	136	-	-
Prepaid items	1,165	-	-	-	-
TOTAL ASSETS	$ 1,634,822	$ 1,093,543	$ 56,357	$ 29,720	$ 134,251
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts payable	$ 3,722	$ 30,007	$ -	$ -	$ 409
Accrued liabilities	6	53,134	-	-	-
Total liabilities	3,728	83,141	-	-	409
FUND BALANCES					
Nonspendable					
Prepaid items	1,165	-	-	-	-
Restricted:					
Capital acquisitions and contractual obligations	-	-	-	-	-
Culture and recreation	1,629,929	-	56,357	-	-
Public works	-	-	-	-	-
Public safety	-	1,010,402	-	29,720	133,842
Total fund balances	1,631,094	1,010,402	56,357	29,720	133,842
TOTAL LIABILITIES AND FUND BALANCES	$ 1,634,822	$ 1,093,543	$ 56,357	$ 29,720	$ 134,251

Municipal Court Truancy Fund	Traffic Safety Fund	Street Maintenance Sales Tax Fund	PEG Fund	WEDC Construction Fund	Jury Fees Fund	Total Non major Governmental Funds
$ 83,965	$ 50,927	$ 1,767,348	$ 82,280	$ 38,660	$ 562	$ 4,517,096
-	-	-	-	-	-	23,621
-	-	-	-	-	-	430,553
-	-	-	-	-	-	1,165
$ 83,965	$ 50,927	$ 1,767,348	$ 82,280	$ 38,660	$ 562	$ 4,972,435
$ 248	$ 4,198	$ 265,438	$ -	$ -	$ -	$ 304,022
1,159	12,775	-	-	-	-	67,074
1,407	16,973	265,438	-	-	-	371,096
-	-	-	-	-	-	1,165
-	-	-	-	38,660	-	38,660
-	-	-	-	-	-	1,686,286
-	-	1,501,910	82,280	-	-	1,584,190
82,558	33,954	-	-	-	562	1,291,038
82,558	33,954	1,501,910	82,280	38,660	562	4,601,339
$ 83,965	$ 50,927	$ 1,767,348	$ 82,280	$ 38,660	$ 562	$ 4,972,435

City of Watauga, Texas

Combining Statement of Revenues, Expenditures
and Changes in Fund Balance
Non-Major Governmental Funds
For the Fiscal Year Ended September 30, 2021

	WEDC Sales Tax Fund	Watauga Crime Control and Prevention Fund	Library Donation Fund	Municipal Court Security Fund	Municipal Court Technology Fund
REVENUES					
Taxes	$ 865,622	$ 1,701,405	$ -	$ -	$ -
Interest income	1,207	1,417	45	21	153
Miscellaneous	850	86,772	5,822	18,453	15,590
Total revenues	867,679	1,789,594	5,867	18,474	15,743
EXPENDITURES					
Current:					
Public safety	-	1,469,939	-	-	6,948
Culture and recreation	98,975	-	-	-	-
Public works	-	-	-	-	-
Capital outlay	-	10,388	-	-	1,324
Total expenditures	98,975	1,480,327	-	-	8,272
Excess (deficiency) of revenues over expenditures	768,704	309,267	5,867	18,474	7,471
OTHER FINANCING SOURCES (USES)					
Transfers out	(379,784)	(30,000)	-	-	-
Total other financing sources (uses)	(379,784)	(30,000)	-	-	-
Net change in fund balances	388,920	279,267	5,867	18,474	7,471
Fund Balance, beginning	1,242,174	731,135	50,490	11,246	126,371
FUND BALANCE, ending	$ 1,631,094	$ 1,010,402	$ 56,357	$ 29,720	$ 133,842

Municipal Court Truancy Fund	Traffic Safety Fund	Street Maintenance Sales Tax Fund	PEG Fund	WEDC Construction Fund	Jury Fees Fund	Total Non major Governmental Funds
$ -	$ -	$ 220,958	$ -	$ -	$ -	$ 2,787,985
71	701	2,026	72	61	-	5,774
19,461	-	-	38,056	-	357	185,361
19,532	701	222,984	38,128	61	357	2,979,120
29,631	320,359	-	-	-	-	1,826,877
-	-	-	-	-	-	98,975
-	-	88,026	-	-	-	88,026
-	-	408,710	-	236	-	420,658
29,631	320,359	496,736	-	236	-	2,434,536
(10,099)	(319,658)	(273,752)	38,128	(175)	357	544,584
-	-	-	-	-	-	(409,784)
-	-	-	-	-	-	(409,784)
(10,099)	(319,658)	(273,752)	38,128	(175)	357	134,800
92,657	353,612	1,775,662	44,152	38,835	205	4,466,539
$ 82,558	$ 33,954	$ 1,501,910	$ 82,280	$ 38,660	$ 562	$ 4,601,339

City of Watauga, Texas

Schedule of Revenues, Expenditures and Changes
In Fund Balances – Budget to Actual
WEDC Sales Tax Special Revenue Fund
Year Ended September 30, 2021

	Budget Amounts Final Budget	Actual Amounts	Variance Positive / (Negative)
Revenues			
Taxes	$ 705,000	$ 865,622	$ 160,622
Interest income	5,000	1,207	(3,793)
Miscellaneous	35,800	850	(34,950)
Total revenues	745,800	867,679	121,879
Expenditures			
Current:			
Culture and recreation	118,960	98,975	19,985
Capital outlay	2,500	-	2,500
Total expenditures	121,460	98,975	22,485
Excess of revenues over expenditures	624,340	768,704	144,364
Other financing uses			
Transfers out	(379,784)	(379,784)	-
Total other financing uses	(379,784)	(379,784)	-
Net change in fund balances	244,556	388,920	144,364
Fund balances, beginning of year	1,242,174	1,242,174	-
Fund balances, end of year	$ 1,486,730	$ 1,631,094	$ 144,364

City of Watauga, Texas

Schedule of Revenues, Expenditures and Changes
In Fund Balances – Budget to Actual
Watauga Crime Control and Prevention Special Revenue Fund
Year Ended September 30, 2021

	Budget Amounts Final Budget	Actual Amounts	Variance Positive / (Negative)
Revenues			
Taxes	$ 1,347,000	$ 1,701,405	$ 354,405
Interest income	5,000	1,417	(3,583)
Miscellaneous	49,000	86,772	37,772
Total revenues	1,401,000	1,789,594	388,594
Expenditures			
Current:			
Public safety	1,510,650	1,469,939	40,711
Capital outlay	13,000	10,388	2,612
Total expenditures	1,523,650	1,480,327	43,323
Excess (deficiency) of revenues over expenditures	(122,650)	309,267	431,917
Other financing sources (uses)			
Transfers in	100,000	-	100,000
Transfers out	(30,000)	(30,000)	-
Total other financing sources (uses)	70,000	(30,000)	100,000
Net change in fund balances	(52,650)	279,267	531,917
Fund balances, beginning of year	731,135	731,135	-
Fund balances, end of year	$ 678,485	$ 1,010,402	$ 531,917

City of Watauga, Texas
Schedule of Revenues, Expenditures and Changes
In Fund Balances – Budget to Actual
Library Donation Special Revenue Fund
Year Ended September 30, 2021

	Budget Amounts Final Budget	Actual Amounts	Variance Positive / (Negative)
Revenues			
Interest income	$ 100	$ 45	$ (55)
Miscellaneous	6,000	5,822	(178)
Total revenues	6,100	5,867	(233)
Expenditures			
Current:			
Culture and recreation	10,700	-	10,700
Total expenditures	10,700	-	10,700
Net change in fund balances	(4,600)	5,867	10,467
Fund balances, beginning of year	50,490	50,490	-
Fund balances, end of year	$ 45,890	$ 56,357	$ 10,467

City of Watauga, Texas
Schedule of Revenues, Expenditures and Changes
In Fund Balances – Budget to Actual
Municipal Court Security Special Revenue Fund
Year Ended September 30, 2021

	Budget Amounts Final Budget	Actual Amounts	Variance Positive / (Negative)
Revenues			
Interest income	$ 50	$ 21	$ (29)
Miscellaneous	12,000	18,453	6,453
Total revenues	12,050	18,474	6,424
Net change in fund balances	12,050	18,474	6,424
Fund balances, beginning of year	11,246	11,246	-
Fund balances, end of year	$ 23,296	$ 29,720	$ 6,424

City of Watauga, Texas

Schedule of Revenues, Expenditures and Changes
In Fund Balances – Budget to Actual
Municipal Court Technology Special Revenue Fund
Year Ended September 30, 2021

	Budget Amounts Final Budget	Actual Amounts	Variance Positive / (Negative)
Revenues			
Interest income	$ 300	$ 153	$ (147)
Miscellaneous	15,000	15,590	590
Total revenues	15,300	15,743	443
Expenditures			
Current:			
Public safety	9,500	6,948	2,552
Capital outlay	1,300	1,324	(24)
Total expenditures	10,800	8,272	2,528
Net change in fund balances	4,500	7,471	2,971
Fund balances, beginning of year	126,371	126,371	-
Fund balances, end of year	$ 130,871	$ 133,842	$ 2,971

City of Watauga, Texas
Schedule of Revenues, Expenditures and Changes
In Fund Balances – Budget to Actual
Municipal Court Truancy Special Revenue Fund
Year Ended September 30, 2021

	Budget Amounts Final Budget	Actual Amounts	Variance Positive / (Negative)
Revenues			
Interest income	$ 200	$ 71	$ (129)
Miscellaneous	15,000	19,461	4,461
Total revenues	15,200	19,532	4,332
Expenditures			
Current:			
Public safety	32,415	29,631	2,784
Total expenditures	32,415	29,631	2,784
Net change in fund balances	(17,215)	(10,099)	7,116
Fund balances, beginning of year	92,657	92,657	-
Fund balances, end of year	$ 75,442	$ 82,558	$ 7,116

City of Watauga, Texas
Schedule of Revenues, Expenditures and Changes
In Fund Balances – Budget to Actual
Traffic Safety Special Revenue Fund
Year Ended September 30, 2021

	Budget Amounts Final Budget	Actual Amounts	Variance Positive / (Negative)
Revenues			
Interest income	$ 500	$ 701	$ 201
Total revenues	500	701	201
Expenditures			
Current:			
Public safety	349,850	320,359	29,491
Total expenditures	349,850	320,359	29,491
Net change in fund balances	(349,350)	(319,658)	29,692
Fund balances, beginning of year	353,612	353,612	-
Fund balances, end of year	$ 4,262	$ 33,954	$ 29,692

City of Watauga, Texas

Schedule of Revenues, Expenditures and Changes
In Fund Balances – Budget to Actual
Street Maintenance Sales Tax Special Revenue Fund
Year Ended September 30, 2021

	Budget Amounts Final Budget	Actual Amounts	Variance Positive / (Negative)
Revenues			
Sales taxes	$ 221,000	$ 220,958	$ (42)
Interest income	8,000	2,026	(5,974)
Total revenues	229,000	222,984	(6,016)
Expenditures			
Current:			
Public works	108,000	88,026	19,974
Capital outlay	800,000	408,710	391,290
Total expenditures	908,000	496,736	411,264
Net change in fund balances	(679,000)	(273,752)	405,248
Fund balances, beginning of year	1,775,662	1,775,662	-
Fund balances, end of year	$ 1,096,662	$ 1,501,910	$ 405,248

City of Watauga, Texas
Schedule of Revenues, Expenditures and Changes
In Fund Balances – Budget to Actual
PEG Special Revenue Fund
Year Ended September 30, 2021

	Budget Amounts Final Budget	Actual Amounts	Variance Positive / (Negative)
Revenues			
Interest income	$ 500	$ 72	$ (428)
Miscellaneous	30,000	38,056	8,056
Total revenues	30,500	38,128	7,628
Expenditures			
Current:			
General government	10,000	-	10,000
Total expenditures	10,000	-	10,000
Net change in fund balances	20,500	38,128	17,628
Fund balances, beginning of year	44,152	44,152	-
Fund balances, end of year	$ 64,652	$ 82,280	$ 17,628

City of Watauga, Texas
Schedule of Revenues, Expenditures and Changes
In Fund Balances – Budget to Actual
Debt Service Fund
Year Ended September 30, 2021

	Budget Amounts Final Budget	Actual Amounts	Variance Positive/ (Negative)
Revenues			
Taxes			
Property taxes	2,742,000	$ 2,779,341	$ 37,341
Interest income	5,000	1,262	(3,738)
Total revenues	2,747,000	2,780,603	33,603
Expenditures			
Debt service			
Principal	2,335,000	2,340,000	(5,000)
Interest	622,206	1,179,485	(557,279)
Total expenditures	2,957,206	3,519,485	(562,279)
Deficiency of revenues over expenditures	(210,206)	(738,882)	(528,676)
Other financing sources			
Proceeds from bond refunding	-	575,000	575,000
Transfers in	157,503	157,503	-
Total other financing sources	157,503	732,503	575,000
Net change in fund balances	(52,703)	(6,379)	46,324
Fund balances, beginning of year	765,068	765,068	-
Fund balances, end of year	$ 712,365	$ 758,689	$ 46,324

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Statistical Section
(Unaudited)

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City of Watauga, Texas

Statistical Section (Unaudited)

This part of the City of Watauga's Annual Comprehensive Financial Reportprovides detailed information to help the reader better understand information presented within the financial statements, note disclosures, and required supplementary information and how they relate to the City's overall financial health.

Financial Trends ..... (Tables 1-4)

Contains trend information to aid the reader in understanding how the City's financial performance has changed over time.

Revenue Capacity ..... (Tables 5-10)

Contains information to help the reader assess the City's most significant local revenue sources, the property tax and water revenues.

Debt Capacity ..... (Tables 11-14)

Presents information to assess the affordability of the City's current levels of outstanding debt and the City's ability to issue additional debt in the future.

Demographic and Economic Information ..... (Tables 15-16)

Offers information to help the reader understand the environment within which the City's financial activities take place.

Operating Information ..... (Tables 17-19)

Contains service and infrastructure data to help the reader understand how the City's financial report relates to the services the City provides and the activities it performs.

Unless otherwise noted, the information in these schedules is derived from the Annual Comprehensive Financial Reports for the relevant year.

City of Watauga, Texas **Table 1**

Net Position by Component
Last Ten Fiscal Years
(accrual basis of accounting)
(Unaudited)

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Governmental activities										
Net investment in capital assets	$ 34,487,229	$ 36,189,453	$ 36,422,084	$ 36,792,569	$ 36,945,402	$ 37,278,290	$ 38,660,904	$ 38,606,089	$ 39,121,348	$ 39,716,524
Restricted	4,065,171	3,434,419	3,627,883	3,488,244	3,833,368	4,620,450	4,457,373	4,779,207	5,158,484	5,296,207
Unrestricted	3,944,350	3,550,813	3,901,351	1,320,284	845,314	407,478	(371,133)	(725,644)	(752,288)	1,150,464
Total governmental activities net position	$ 42,496,750	$ 43,174,685	$ 43,951,318	$ 41,601,097	$ 41,624,084	$ 42,306,218	$ 42,747,144	$ 42,659,652	$ 43,527,544	$ 46,163,195
Business-type activities										
Net investment in capital assets	$ 19,182,389	$ 19,337,856	$ 20,531,108	$ 21,545,419	$ 24,344,617	$ 24,042,159	$ 23,944,294	$ 24,452,425	$ 27,276,699	$ 27,856,495
Restricted	58,469	71,731	87,591	18,283	-	-	-	-	-	-
Unrestricted	4,053,800	5,337,852	5,506,717	4,493,409	3,139,921	4,705,617	6,210,337	5,887,374	4,739,452	6,197,552
Total business-type activities net position	$ 23,294,658	$ 24,747,439	$ 26,125,416	$ 26,057,111	$ 27,484,538	$ 28,747,776	$ 30,154,631	$ 30,339,799	$ 32,016,151	$ 34,054,047
Primary government										
Net investment in capital assets	$ 53,669,618	$ 55,527,309	$ 56,953,192	$ 58,337,988	$ 61,290,019	$ 61,320,449	$ 62,605,198	$ 63,058,514	$ 66,398,047	$ 67,573,019
Restricted	4,123,640	3,506,150	3,715,474	3,506,527	3,833,368	4,620,450	4,457,373	4,779,207	5,158,484	5,296,207
Unrestricted	7,998,150	8,888,665	9,408,068	5,813,693	3,985,235	5,113,095	5,839,204	5,161,730	3,987,164	7,348,016
Total primary government net position	$ 65,791,408	$ 67,922,124	$ 70,076,734	$ 67,658,208	$ 69,108,622	$ 71,053,994	$ 72,901,775	$ 72,999,451	$ 75,543,695	$ 80,217,242

Source: Annual Comprehensive Financial Reports

City of Watauga, Texas **Table 2**

Changes in Net Position
Last Ten Fiscal Years
(accrual basis of accounting)
(Unaudited)

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Expenses										
Governmental activities:										
General government	$ 6,334,463	$ 5,965,810	$ 5,946,991	$ 5,928,568	$ 6,107,863	$ 3,522,986	$ 5,584,813	$ 4,985,534	$ 4,652,993	$ 4,384,354
Public Safety	4,678,418	5,135,677	5,121,732	5,430,215	6,029,558	5,845,630	5,808,608	9,178,932	9,534,209	9,136,711
Public Works	1,771,771	1,473,221	1,980,003	1,315,752	987,328	2,472,838	769,758	2,348,520	2,156,500	2,131,872
Culture and recreation	2,467,403	2,372,941	2,411,179	3,077,296	3,724,218	5,095,575	4,720,179	2,767,462	2,262,568	1,878,361
Interest on long-term debt	755,827	496,694	364,167	446,308	377,813	411,910	381,932	562,654	692,493	653,227
Total governmental activities expenses	16,007,882	15,444,343	15,824,072	16,198,139	17,226,780	17,348,939	17,265,290	19,843,102	19,298,763	18,184,525
Business-type activities:										
Water and Sewer	6,458,485	6,502,520	6,416,253	7,232,341	7,300,779	6,979,614	6,707,331	8,220,965	7,638,966	6,770,160
Drainage Utility	1,080,620	1,152,248	1,087,378	946,494	932,806	978,469	1,015,534	1,066,306	1,025,133	1,216,623
Total business-type activities expenses	7,539,105	7,654,768	7,503,631	8,178,835	8,233,585	7,958,083	7,722,865	9,287,271	8,664,099	7,986,783
Total primary government expenses	$ 23,546,987	$ 23,099,111	$ 23,327,703	$ 24,376,974	$ 25,460,365	$ 25,307,022	$ 24,988,155	$ 29,130,373	$ 27,962,862	$ 26,171,308
Program Revenues										
Governmental activities:										
Fees, Fines, and Charges for services:										
General Government	$ 90,425	$ 133,938	$ 125,385	$ 123,006	$ 131,200	$ 126,955	$ 177,819	$ 189,931	$ 189,446	$ 223,193
Public Safety	1,994,440	1,660,967	1,852,051	1,799,906	2,015,413	1,998,687	1,819,361	1,877,057	1,353,891	1,355,268
Public Works	456,805	430,403	489,628	468,706	634,100	612,106	909,678	654,129	686,961	1,033,937
Culture and recreation	233,136	254,023	273,498	272,611	274,796	261,019	252,208	236,478	83,982	90,036
Operating grants and contributions	16,909	20,088	16,438	13,959	35,537	16,111	38,350	22,240	852,735	848,051
Capital grants and contributions	-	209,350	-	-	-	-	-	-	156,855	-
Total governmental activities program revenues	2,791,715	2,708,769	2,757,000	2,678,188	3,091,046	3,014,878	3,197,416	2,979,835	3,323,870	3,550,485
Business-type activities:										
Charges for services:										
Water and Sewer	8,221,767	8,159,949	7,894,765	7,877,670	8,660,703	8,206,963	8,223,078	8,222,931	9,031,436	8,976,433
Drainage Utility	1,296,024	1,413,708	1,416,053	1,419,324	1,410,213	1,419,460	1,451,829	1,470,162	1,471,937	1,559,331
Capital grants and contributions	-	-	16	-	-	-	-	-	-	-
Total business-type activities program revenues	9,517,791	9,573,657	9,310,834	9,296,994	10,070,916	9,626,423	9,674,907	9,693,093	10,503,373	10,535,764
Total primary government program revenues	$ 12,309,506	$ 12,282,426	$ 12,067,834	$ 11,975,182	$ 13,161,962	$ 12,641,301	$ 12,872,323	$ 12,672,928	$ 13,827,243	$ 14,086,249

City of Watauga, Texas
Changes in Net Position
Last Ten Fiscal Years
(accrual basis of accounting)
(Unaudited)

Table 2
(continued)

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Net (Expense)/Revenue										
Governmental activities	$ (13,216,167)	$ (12,735,574)	$ (13,067,072)	$ (13,519,951)	$ (14,135,734)	$ (14,334,061)	$ (14,067,874)	$ (16,863,267)	$ (15,974,893)	$ (14,634,040)
Business-type activities	1,978,686	1,918,889	1,807,203	1,118,159	1,837,331	1,668,340	1,952,042	405,822	1,839,274	2,548,981
Total primary government net expense	$ (11,237,481)	$ (10,816,685)	$ (11,259,869)	$ (12,401,792)	$ (12,298,403)	$ (12,665,721)	$ (12,115,832)	$ (16,457,445)	$ (14,135,619)	$ (12,085,059)
General Revenues and Other Changes in Net Position										
Governmental activities:										
Taxes:										
Property taxes	$ 5,689,606	$ 5,627,201	$ 5,677,248	$ 5,943,335	$ 6,246,763	$ 7,022,618	$ 7,430,079	$ 8,033,015	$ 8,638,677	$ 8,926,186
Franchise taxes	1,090,651	1,065,054	1,125,164	1,184,339	1,114,190	1,003,842	925,895	989,642	881,836	6,306,657
Sales taxes	5,685,949	5,675,542	6,008,050	6,284,432	5,868,069	5,814,302	5,850,480	6,013,849	5,982,337	783,430
Penalties and Interest	39,239	33,006	32,724	42,000	32,295	39,561	35,044	39,218	45,597	43,240
Payments in lieu of taxes	460,537	471,721	469,219	458,232	370,897	457,222	497,961	479,086	503,500	503,500
Investment earnings	32,675	25,392	10,763	29,030	68,650	152,516	280,383	589,104	274,370	44,353
Miscellaneous	15,828	43,872	51,317	26,435	3,960	9,439	8,946	55,275	12,968	69,825
Transfers	460,537	471,721	469,219	578,070	453,897	516,695	543,961	576,586	503,500	592,500
Total governmental activities	13,475,022	13,413,509	13,843,704	14,545,873	14,158,721	15,016,195	15,572,749	16,775,775	16,842,785	17,269,691
Business-type activities:										
Investment earnings	8,256	5,613	3,384	21,017	43,863	103,443	222,974	353,387	305,578	78,637
Miscellaneous revenue	39,865	-	36,608	9,196	130	8,150	-	2,525	35,000	2,778
Transfers	(460,537)	(471,721)	(469,219)	(578,070)	(453,897)	(516,695)	(543,961)	(576,586)	(503,500)	(592,500)
Total business-type activities	(412,416)	(466,108)	(429,227)	(547,857)	(409,904)	(405,102)	(320,987)	(220,674)	(162,922)	(511,085)
Total primary government	$ 13,062,606	$ 12,947,401	$ 13,414,477	$ 13,998,016	$ 13,748,817	$ 14,611,093	$ 15,251,762	$ 16,555,101	$ 16,679,863	$ 16,758,606
Change in Net Position										

City of Watauga, Texas **Table 3**

Fund Balances, Governmental Funds
Last Ten Fiscal Years
(modified accrual basis of accounting)
(Unaudited)

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
General Fund										
Non-spendable										
Inventories	$ 30,009	$ 16,182	$ 16,095	$ 17,389	$ 17,636	$ 20,440	$ 21,487	$ 20,776	$ 17,581	$ 17,542
Prepaid	1,060	8,602	106,545	91,173	184,729	20,491	8,651	80,547	7,579	6,454
Assigned										
Other purposes	30,512	-	-	-	-	-	-	-	-	-
Unassigned	5,584,021	5,516,922	5,914,070	5,734,435	5,274,387	4,490,902	4,541,421	4,317,018	5,314,204	7,011,165
Total general fund**	$ 5,645,602	$ 5,541,706	$ 6,036,710	$ 5,842,997	$ 5,476,752	$ 4,531,833	$ 4,571,559	$ 4,418,341	$ 5,339,364	$ 7,035,161
All Other Governmental Funds										
Non-spendable										
Prepaid items	$ -	$ -	$ 7,770	$ 26,021	$ 6,766	$ 7,198	$ 10,265	$ 15,511	$ 2,115	$ 1,165
Restricted										
Capital acquisitions and contractual obligations	2,976,396	2,356,746	5,239,060	4,076,280	8,578,094	5,919,345	10,908,618	10,576,461	11,585,784	11,287,523
Debt service	469,446	485,087	540,837	342,274	397,992	539,900	710,903	659,604	765,068	758,689
Culture and recreation	1,933,581	914,222	742,157	695,139	751,871	838,576	869,225	922,784	1,290,549	1,686,286
Public Works	-	210,288	421,174	654,858	818,069	1,084,390	1,137,735	1,483,538	1,819,814	1,584,190
Public Safety	1,222,484	1,345,927	1,389,689	1,500,796	1,493,577	1,768,676	1,418,896	1,532,213	1,315,226	1,291,038
Total all other governmental funds	$ 6,601,907	$ 5,312,270	$ 8,340,687	$ 7,295,368	$ 12,046,369	$ 10,158,085	$ 15,055,642	$ 15,190,111	$ 16,778,556	$ 16,608,891

Source: Annual Comprehensive Financial Reports

City of Watauga, Texas **Table 4**

Changes in Fund Balances, Governmental Funds
Last Ten Fiscal Years
(modified accrual basis of accounting)
(Unaudited)

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenues										
Taxes and franchise fees	$ 12,464,130	$ 12,407,885	$ 12,822,665	$ 13,471,718	$ 13,263,260	$ 13,867,337	$ 14,235,932	$ 15,065,384	$ 15,549,931	$ 16,071,272
Licenses and permits	270,716	250,579	309,592	285,258	454,991	428,530	726,796	467,737	501,024	776,817
Charges for services	664,507	625,613	777,747	748,687	741,565	745,127	757,088	741,687	724,789	901,900
Fines and forfeitures	1,593,653	1,351,756	1,396,063	1,298,897	1,563,928	1,522,589	1,406,351	1,323,598	560,003	568,795
Intergovernmental	460,537	471,721	469,219	458,232	370,897	457,222	247,840	523,066	237,784	503,500
Interest income	32,208	24,871	10,252	26,987	59,651	139,237	497,961	479,086	660,355	40,232
Other revenues	262,839	511,617	306,504	320,016	364,976	314,273	337,048	453,439	1,409,741	1,272,469
Total revenues	15,748,590	15,644,042	16,092,042	16,609,795	16,819,268	17,474,315	18,209,016	19,053,997	19,643,627	20,134,985
Expenditures										
General government	5,864,502	5,420,278	5,377,270	5,728,240	5,760,512	5,870,276	6,233,602	6,575,902	3,879,180	3,921,341
Public Safety	4,889,939	4,684,746	4,964,649	5,071,414	5,464,615	5,750,992	5,660,947	6,171,464	8,941,173	8,761,417
Culture and Recreation	876,295	910,769	889,230	1,016,998	1,102,216	1,165,026	2,309,572	2,339,355	1,959,457	1,613,357
Public Works	2,189,744	2,092,790	2,029,768	1,992,632	2,041,848	2,114,393	1,034,613	853,455	740,246	859,341

City of Watauga, Texas **Table 4**
Changes in Fund Balances, Governmental Funds (continued)
Last Ten Fiscal Years
(modified accrual basis of accounting)
(Unaudited)

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Capital outlay	$ 4,154,050	$ 2,414,949	$ 1,231,682	$ 1,771,807	$ 2,203,694	$ 3,419,723	$ 2,897,996	$ 1,398,668	$ 3,026,567	$ 5,629,829
Debt service										
Principal	2,066,378	1,515,502	1,587,774	1,850,150	1,447,632	1,695,225	1,727,935	1,945,767	2,103,727	2,411,819
Interest	558,491	529,045	484,055	428,072	471,377	474,609	537,198	640,098	726,304	1,301,546
Total expenditures	20,599,399	17,568,079	16,564,428	17,859,313	18,491,894	20,490,244	20,401,863	19,924,709	21,376,654	24,498,650
Excess of revenues over (under) expenditures	(4,850,809)	(1,924,037)	(472,386)	(1,249,518)	(1,672,626)	(3,015,929)	(2,192,847)	(870,712)	(1,733,027)	(4,363,665)
Other Financing Sources (Uses)										
Proceeds from borrowing	-	-	3,594,057	-	5,885,000	-	6,780,000	425,000	3,360,000	4,540,000
Proceeds from refunding	-	2,145,000	-	-	-	-	-	-	-	575,000
Payments to escrow agent	-	(2,099,293)	-	-	-	-	-	-	-	
Premiums on GO Debt	-	-	-	-	193,580	-	306,169	24,877	221,495	271,297
Sale of Asset	15,828	13,076	222,531	25,416	55,785	16,031	-	-	-	
Transfers in	2,003,017	1,870,557	845,519	990,970	696,379	892,793	795,870	544,489	985,470	1,013,284
Transfers out	(1,542,480)	(1,398,836)	(576,300)	(1,095,900)	(773,362)	(726,098)	(751,909)	(142,400)	(324,470)	(509,784)
Total other financing sources (uses)	476,365	530,504	4,085,807	(79,514)	6,057,382	182,726	7,130,130	851,966	4,242,495	5,889,797
Net change in fund balances	$ (4,374,444)	$ (1,393,533)	$ 3,613,421	$ (1,329,032)	$ 4,384,756	$ (2,833,203)	$ 4,937,283	$ (18,746)	$ 2,509,468	$ 1,526,132
Debt service as a percentage of noncapital expenditures	16.0%	13.5%	13.6%	14.0%	11.8%	13.1%	13.4%	13.8%	15.4%	19.7%

Source: Annual Comprehensive Financial Reports

City of Watauga, Texas **Table 5**

Assessed Value and Actual Value of Taxable Property
Last Ten Fiscal Years
(Unaudited)

Fiscal Year	Assessed (Appraised) Value			Less: Tax-Exempt	Total Taxable Assessed Value[a]	Total Direct Tax Rate
	Real Property	Personal Property	Total Market Value			
2012	999,533,945	62,820,983	1,062,354,928	98,182,457	964,172,471	0.589001
2013	1,000,809,690	59,216,606	1,060,026,296	100,655,583	959,370,713	0.591216
2014	1,000,519,629	59,016,802	1,059,536,431	103,068,099	956,468,332	0.591216
2015	1,061,590,252	60,822,613	1,122,412,865	105,745,517	1,016,667,348	0.591216
2016	1,023,103,188	62,537,180	1,085,640,368	108,372,567	977,267,801	0.618718
2017	1,181,209,410	62,026,022	1,243,235,432	111,483,084	1,131,752,348	0.618411
2018	1,273,013,697	68,791,738	1,341,805,435	128,331,870	1,213,473,565	0.601788
2019	1,444,529,571	72,435,076	1,516,964,647	136,522,898	1,380,441,749	0.601788
2020	1,617,737,727	75,175,464	1,692,913,191	140,260,143	1,552,653,048	0.580500
2021	1,665,719,964	75,105,986	1,740,825,950	146,995,717	1,593,830,233	0.580404

Source: Tarrant Appraisal District (www.tad.org)

[a] Assessed (Appraised)value taken from September Certified tax roll provided by the Tarrant Appraisal District

City of Watauga, Texas **Table 6**

Direct and Overlapping Property Tax Rates
Last Ten Fiscal Years
(rate per $100 of assessed value)
(Unaudited)

	City Direct Rates			Overlapping Rates [a]						
Fiscal Year	M&O Rate	General Obligation Debt Service	Total Direct	Keller Ind School District	Birdville Ind School District	Tarrant County	Tarrant County Hospital	Tarrant County College	Combined Rates KISD	Combined Rates BISD
2012	0.412374	0.176627	0.589001	1.540000	1.435000	0.264000	0.227897	0.148970	2.769868	2.664868
2013	0.412107	0.179109	0.591216	1.540000	1.435000	0.264000	0.227897	0.148970	2.772083	2.667083
2014	0.410519	0.180697	0.591216	1.540000	1.435000	0.264000	0.227897	0.149500	2.772613	2.667613
2015	0.412887	0.178329	0.591216	1.540000	1.435000	0.264000	0.227897	0.149500	2.772613	2.667613
2016	0.440171	0.178547	0.618718	1.540000	1.453900	0.264000	0.227897	0.149500	2.800115	2.714015
2017	0.423017	0.195394	0.618411	1.520000	1.453900	0.254000	0.227897	0.144730	2.765038	2.698938
2018	0.419650	0.182138	0.601788	1.520000	1.453900	0.244000	0.224429	0.140060	2.730277	2.664177
2019	0.420628	0.181160	0.601788	1.510000	1.453900	0.234000	0.224429	0.136070	2.706287	2.650187
2020	0.405884	0.174616	0.580500	1.408300	1.383900	0.234000	0.224429	0.130170	2.577399	2.552999
2021	0.400696	0.179708	0.580404	1.394700	1.380300	0.234000	0.224429	0.130170	2.563703	2.549303

Source: Tarrant County Appraisal District - Tax Rates

Note: Rates for debt service are set based on each year's requirements.

[a] Overlapping rates are those of local and county governments that apply to property owners within the City of Watauga.

City of Watauga, Texas **Table 7**

Principal Property Tax Payers
Current Year and Nine Years Ago
(Unaudited)

	2021				2012		
Taxpayer	**Taxable Assessed Value**	**Rank**	**Percentage of Total City Taxable Assessed Value** a)	**Taxpayer**	**Taxable Assessed Value**	**Rank**	**Percentage of Total City Taxable Assessed Value** b)
Inland Western Watauga Lp	$ 35,899,769	1	2.25%	Inland Western Watauga Lp	$ 27,739,600	1	2.88%
Watauga Towne Crossing LLC	33,423,726	2	2.10%	Watauga Towne Crossing LLC	22,437,860	2	2.33%
Park Vista Townhomes Etal	15,900,000	3	1.00%	Dayton Hudson Corp.	11,805,400	3	1.22%
Brookwillow Watauga LLC	14,020,822	4	0.88%	Sci Watauga Town Ctr.	10,074,590	4	1.04%
Dayton Hudson Corp	9,633,051	5	0.60%	Park Vista Townhomes Etal	8,237,410	5	0.85%
Oncor Electric Delivery	8,779,314	7	0.55%	Oncor Electric Delivery	6,991,515	6	0.73%
Watauga Association	5,717,674	6	0.36%	Southwestern Bell	6,756,280	7	0.70%
Woodcrest Marketplace Lp	5,148,712	8	0.32%	Watauga All Storage	5,062,654	8	0.53%
Target Stores	5,642,632	9	0.35%	Target Stores	4,456,752	9	0.46%
Southwestern Bell	5,015,504	10	0.31%	Watauga Association	4,374,452	10	0.45%
Total	$ 139,181,204		8.73%		$ 107,936,513		11.19%

Source: Tarrant Central Appraisal District

TAD.org ->reports->year->top taxpayers

NOTE:

a) Total taxable value including real and personal property for tax year 2020 (FY 2020-2021) is $1,593,830,233

b) Total taxable value including real and personal property for tax year 2011 (FY 2011-2012) is $964,172,471

City of Watauga, Texas **Table 8**

Property Tax Levies and Collections
Last Ten Fiscal Years
(Unaudited)

Fiscal Year	Taxes Levied for the Fiscal Year	Adjustments to Levy in Subsequent Years	Adjusted Taxes Levied for the Fiscal Year	Collected within the Fiscal Year of the Levy		Collections in Subsequent Years	Total Collections to Date		Actual Balance
				Amount	Percentage of Levy		Amount	Percentage of Levy	
2012	5,655,637	(3,438)	5,652,199	5,602,319	99.12%	37,867	5,640,186	99.79%	12,013
2013	5,644,682	(6,692)	5,637,990	5,596,849	99.27%	32,082	5,628,931	99.84%	9,059
2014	5,684,546	(6,007)	5,678,539	5,622,210	99.01%	47,256	5,669,466	99.84%	9,073
2015	5,950,064	(9,354)	5,940,710	5,903,688	99.38%	27,389	5,931,077	99.84%	9,633
2016	6,261,312	2,475	6,263,787	6,216,717	99.25%	34,690	6,251,407	99.80%	12,380
2017	7,023,037	(30,513)	6,992,524	6,969,596	99.67%	11,085	6,980,681	99.83%	11,843
2018	7,449,031	(10,155)	7,438,876	7,391,050	99.36%	36,344	7,427,394	99.85%	11,482
2019	8,058,938	(7,896)	8,051,042	7,994,311	99.30%	45,229	8,039,540	99.86%	11,502
2020	8,654,530	(7,782)	8,646,748	8,585,768	99.29%	38,062	8,585,768	99.29%	60,980
2021	8,919,782	-	8,919,782	8,870,951	99.45%	n/a	8,870,951	99.45%	48,831

Sources: Tarrant County Tax Office and Tarrant Appraisal District

City of Watauga, Texas **Table 9**

Water Revenue
Last Ten Fiscal Years
(Unaudited)

Fiscal Year	*No of Customers	**Gallons Billed	***Water Revenue
2012	8,169	696,350,699	4,526,971
2013	8,160	684,273,847	4,439,701
2014	8,196	672,400,560	4,342,748
2015	8,208	659,047,433	4,184,780
2016	8,255	677,806,287	4,491,891
2017	8,248	614,615,519	4,230,822
2018	8,281	683,681,464	4,564,691
2019	8,318	598,933,474	4,260,894
2020	8,328	659,975,682	4,898,617
2021	8,349	598,350,168	4,624,597

*Source: Table 18 - number of Water Consumers
**Source: Monthly E-mail sent by D. Defriese, Utility Billing Supervisor
***Source: Comparative Summary of Monthly Water Billings

City of Watauga, Texas **Table 10**

Principal Water Customers
As of September 30, 2021
(Unaudited)

Customer Name	Gallons Consumed (000)	Total	Dollars Billed	Total
Park Vista Townhomes	18,947	3.17%	$ 173,425	3.75%
North Pointe Nursing & Rehab	4,110	0.69%	27,708	0.60%
Denton Hwy. Laudromat	3,560	0.59%	22,984	0.50%
TPCMW, Inc.	1,982	0.33%	13,509	0.29%
Chili's	1,704	0.28%	11,259	0.24%
Watauga 377	1,327	0.22%	9,122	0.20%
Lifestyle Christianity	1,325	0.22%	9,184	0.20%
Watauga 377	1,388	0.23%	11,368	0.25%
Modern Wash	1,327	0.22%	9,122	0.20%
Kwik Kar Wash	1,396	0.23%	8,724	0.19%
Top Ten Total	37,066	6.19%	$ 296,405	6.41%
City Total	598,350		$ 4,624,597	

City of Watauga, Texas **Table 11**

Ratios of Outstanding Debt by Type
Last Ten Fiscal Years
(Unaudited)

	Governmental Activities						Business-Type Activities						
Fiscal Year	General Obligation Bonds	Certificates of Obligation	Tax Notes	Sales Tax Revenue Bonds	Unamortized Bond Premium	Other Obligations	Water and Sewer Revenue Bonds	General Obligation Bonds	Certificates of Obligation	Unamortized Bond Premium	Total Primary Government	Percentage of Personal Income [b]	Per Capita [b]
2012	3,190,000	9,895,000	-	800,000	74,400	718,903	-	4,740,000	10,380,000	519,658	30,317,961	5.73%	1,290
2013	4,950,000	6,940,000	-	610,000	68,826	668,400	-	3,630,000	9,950,000	477,594	27,294,820	5.02%	1,170
2014	4,430,000	9,620,000	-	415,000	156,516	615,629	-	2,480,000	9,505,000	435,530	27,657,675	5.16%	1,176
2015	3,745,000	8,925,000	-	-	146,123	560,479	-	1,275,000	9,050,000	393,467	24,095,069	4.33%	1,033
2016	3,045,000	14,120,000	-	-	329,067	502,847	-	-	8,595,000	351,403	26,943,317	4.54%	1,142
2017	2,335,000	13,195,000	-	-	308,685	442,622	-	-	15,415,000	583,305	32,279,612	5.46%	1,332
2018	1,605,000	19,040,000	-	-	593,220	379,687	-	-	14,655,000	546,745	36,819,652	6.17%	1,559
2019	1,105,000	18,085,000	-	-	581,822	313,920	-	-	21,910,000	982,265	42,978,007	7.20%	1,820
2020	585,000	19,480,000	450,000	-	762,060	245,191	-	-	20,965,000	923,952	43,411,203	5.21%	1,826
2021	960,000	21,395,000	375,000	-	956,531	173,371	-	-	20,005,000	847,902	44,712,804	3.64%	1,881

Note: Details regarding the city's outstanding debt can be found in the notes to the financial statements.

[b] See Table 15 for personal income and population data. These ratios are calculated using personal income and population for the prior calendar year.

City of Watauga, Texas **Table 12**

Ratios of General Bonded Debt Outstanding
Last Ten Fiscal Years
(Unaudited)

	Governmental Activities				Business-Type Activities						
Fiscal Year	General Obligation Bonds	Certificates of Obligation	Tax Notes	Unamortized Bond Premium	General Obligation Bonds	Certificates of Obligation	Unamortized Bond Premium	Total Primary Government	Less: Amount[a] Restricted for Debt Service	Percentage of Actual Taxable Value[b] of Property	Per Capita[c]
2012	3,190,000	9,895,000	-	74,400	4,740,000	10,380,000	519,658	28,799,058	498,129	2.94%	1,226
2013	4,950,000	6,940,000	-	68,826	3,630,000	9,950,000	477,594	26,016,420	550,626	2.65%	1,115
2014	4,430,000	9,620,000	-	156,516	2,480,000	9,505,000	435,530	26,627,046	621,617	2.72%	1,133
2015	3,745,000	8,925,000	-	146,123	1,275,000	9,050,000	393,467	23,534,590	313,460	2.28%	1,009
2016	3,045,000	14,120,000	-	329,067	-	8,595,000	351,403	26,440,470	374,859	2.67%	1,120
2017	2,335,000	13,195,000	-	308,685	-	15,415,000	583,305	31,836,990	395,192	2.78%	1,314
2018	1,605,000	19,040,000	-	593,220	-	14,655,000	546,745	36,439,965	669,939	2.95%	1,543
2019	1,105,000	18,085,000	-	581,822	-	21,910,000	982,265	42,664,087	610,275	3.05%	1,807
2020	585,000	19,480,000	450,000	762,060	-	20,965,000	923,952	43,166,012	765,068	2.73%	1,816
2021	960,000	21,395,000	375,000	956,531	-	20,005,000	847,902	44,539,433	758,689	2.75%	1,874

Note: Details regarding the city's outstanding debt can be found in the notes to the financial statements.

[a] This is the amount restricted for debt service principal payments for the total primary government.

[b] See Table 5 for property value data.

[c] Population data can be found in Table 15

City of Watauga, Texas **Table 13**

Direct and Overlapping Governmental Activities Debt
Year Ended September 30, 2021
(Unaudited)

Governmental Unit	Debt Outstanding	Estimated Percentage Applicable [a]	Estimated Share of Overlapping Debt
Debt repaid with property taxes			
Keller Independent School District	$ 877,564,989	2.82%	$ 24,747,333
Birdville Independent School District	440,840,000	7.67%	33,812,428
Tarrant County College District	255,995,000	0.69%	1,766,366
Tarrant County	213,675,000	0.69%	1,474,358
Tarrant County Hospital	14,495,000	0.69%	100,014
Subtotal, overlapping debt			61,900,497
City direct debt			23,859,902
Total direct and overlapping debt			$ 85,760,399

Sources: Debt outstanding data provided by each governmental unit.

[a] For percentage of debt applicable to City, data prepared by the Municipal Advisory Council of Texas.

Note: Overlapping governments are those that coincide, at least in part, with the geographic boundaries of the city. This schedule estimates the portion of the outstanding debt of those overlapping governments that is borne by the residents and businesses of Statistical. This process recognizes that, when considering the city's ability to issue and repay long-term debt, the entire debt burden borne by the residents and businesses should be taken into account. However, this does not imply that every taxpayer is a resident, and therefore responsible for repaying the debt, of each overlapping government.

City of Watauga, Texas **Table 14**

Pledged-Revenue Coverage
Last Ten Fiscal Years
(Unaudited)

Fiscal Year	Water and Sewer Revenue Bonds						PDC Sales Tax Revenue Bonds[c]					
	Total Revenues[a]	Less: Operating Expenses[b]	Net Available Revenue	Debt Service Principal	Debt Service Interest	Coverage	Total Revenues[a]	Less Operating Expenses	Net Available Revenue	Debt Service Principal	Debt Service Interest	Coverage
2012	-	-	-	-	-	-	1,418,979	756,666	662,313	185,000	29,880	3.08
2013 [e]	-	-	-	-	-	-	708,356	702,898	5,458	190,000	24,136	0.03
2014	-	-	-	-	-	-	748,342	697,423	50,919	195,000	17,950	0.24
2015 [f]	-	-	-	-	-	-	789,696	596,121	193,575	415,000	4,052	0.46
2016	-	-	-	-	-	-	-	-	-	-	-	-
2017	-	-	-	-	-	-	-	-	-	-	-	-
2018	-	-	-	-	-	-	-	-	-	-	-	-
2019 [f]	-	-	-	-	-	-	-	-	-	-	-	-
2020 [f]	-	-	-	-	-	-	-	-	-	-	-	-
2021 [f]	-	-	-	-	-	-	-	-	-	-	-	-

Note: Details regarding the city's outstanding debt can be found in the notes to the financial statements.
Source: Annual Comprehensive Financial Reports and Official Statement

[a] Includes operating and non-operating revenues
[b] Excludes depreciation, amortization, interest expense and expenditures identified as capital
[c] Bonds are solely supported by a 1/2 cent sales tax approved at an election held in May, 1994 for the purpose of the City Parks and
[d] In April, 2008, the City issued $2,430,000 in GO Refunding Bonds to refund $2,400,000 of outstanding Series 1996 Waterworks and Sewer System
[e] In May, 2012, voters approved a reallocation of 1/4 cent sales tax to the Street Maintenance Fund for a period of 4 years, effective October 1, 2012. The fund balance in the PDC operating fund is sufficient to pay off the remainder of the bond.
[f] Final Debt Service payment made in FY2015 Parks Development Corporation name changed to Economic Development

City of Watauga, Texas **Table 15**

Demographic and Economic Statistics
Last Ten Calendar Years
(Unaudited)

Year	Population(1)	Personal Income (thousands of dollars) (2)	Per Capita Personal Income(3)	Median Age(4)	School Enrollment(5)	Unemployment Rate(6)
2012	23,497	529,387	22,530	32.9	4,852	7.9%
2013	23,331	543,776	23,307	34.5	4,933	7.0%
2014	23,510	536,240	22,809	33.5	4,755	5.8%
2015	23,331	556,351	23,846	33.7	4,529	5.0%
2016	23,600	593,469	25,147	34.7	3,851	4.1%
2017	24,228	591,575	24,417	34.9	5,380	4.1%
2018	23,610	596,861	25,280	34.2	5,650	3.7%
2019	23,770	833,139	35,050	34.5	5,172	3.3%
2020	23,770	1,227,982	51,661	34.0	5,172	3.5%
2021	23,770	977,280	41,114	35.0	4,335	4.1%

Sources:
(1) NCTCOG annual population estimates
(2) 2012 - 2020 Personal Income is calculated by multiplying Population (1) by Per Capita Personal Income
(3) 2012 - 2014 From U.S. Census Bureau American Fact Finder. 2016 based on www.incomebyzipcode.com . 2020 - 2021 Estimates from The Retail Coach.
(4) 2011 - 2014 Median Age from 2010 Census, U.S. Census Bureau American Fact Finder and The Retail Coach 2020-2021.
(5) School Enrollment provided by Birdville and Keller Independent School Districts.
(6) Unemployment Rates from Texas Workforce Commission.

City of Watauga, Texas **Table 16**

Principal Employers

Current Year and Nine Years Ago

Employer	2021 Employees [1]	2021 Rank	2021 Percentage of Total City Employment [2]	2012 Employees [1]	2012 Rank	2012 Percentage of Total City Employment [3]
Birdville ISD	259	1	4.11%	266	1	4.69%
Target	249	2	3.96%	240	2	4.23%
City of Watauga	160	3	2.54%	193	3	3.40%
Albertsons	95	4	1.51%	93	6	1.64%
North Pointe Health & Rehab	87	5	1.38%	110	5	1.94%
Fresco's	60	6	0.95%	80	8	1.41%
Keller ISD	65	7	1.03%	89	7	1.57%
Chilis	56	8	0.89%	48	10	0.85%
Cotton Patch Café	50	9	0.79%	50	9	0.88%
Harvest Christian	-			120	4	2.11%
Fitness Now	18	10	0.29%	-		
Total	1,099		17.46%	1,289		22.71%

Source:

[1] For 2021 used NCTCOG regional Data, for 2012 used Sites on Texas, Survey of American Cities, City of Watauga CAFR 2012

[2] For 2021, used NCTCOG 2017 estimates of 6295 obtained from the Bureau of Economic Analysis and U.S. Census Bureau, analyzed by NCTCOG

[3] For 2012 City Employment is estimated at 5676 obtained from Sites on Texas, Demographic data for 2007 by Experien / Applied Geographic Solutions

City of Watauga, Texas **Table 17**

Full-Time Equivalent City Government Employees by Function/Program
Last Ten Fiscal Years
(Unaudited)

Function/Program	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
General Government and Administration	31.50	30.25	31.25	31.65	31.65	32.90	31.90	31.90	31.90	21.75
Public Safety										
Police Division	59.25	51.75	49.75	49.85	49.85	48.85	47.60	47.60	47.60	50.00
Fire/EMS Division	22.00	21.25	21.00	21.00	21.00	21.00	21.00	21.00	27.00	27.00
Culture and Recreational	10.50	10.25	9.25	8.50	8.50	8.50	8.50	8.50	8.50	3.00
Library	13.25	13.00	13.00	12.00	12.00	12.50	12.25	12.25	12.25	11.25
Water/Sewer/Drainage	34.25	36.00	36.00	33.25	33.25	33.25	32.25	32.25	32.25	28.25
Fleet Services	4.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
Building	8.00	8.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00
Parks Development**	11.50	12.00	12.00	8.75	8.75	8.75	6.75	6.75	6.75	6.00
Total	194.25	185.50	182.25	175.00	175.00	175.75	170.25	170.25	176.25	157.25

Source: City Budget Office.

* Decreased positions due to a shift to contract labor in the Parks Department in fiscal year 2015.
** In FY2019, the Parks Develoment Fund changed name to Economic Development Fund mid-year
***In FY2021, positions were reduced/frozen or unfunded to recover from expected revenue losses due to the COVID-19 pandemic

City of Watauga, Texas **Table 18**

Operating Indicators by Function/Program
Last Ten Fiscal Years
(Unaudited)

Function/Program	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Police										
Calls for Service	10,976	9,993	8,127	6,565	8,279	10,464	9,247	10,543	10,046	9,246
Municipal Citations Issued	17,074	13,576	8,650	7,961	8,781	3,999	3,449	5,410	6,664	5,559
Fire/EMS										
EMS Calls	1,043	1,011	675	1,133	1,395	1,387	1,369	1,475	1,400	1,676
EMS Average Response Time (min)	3.40	3.50	3.20	3.60	3.47	3.50	3.50	3.46	4.14	4.16
Ambulance Transports	848	845	846	946	1,039	1,063	942	1,059	1,005	1,212
Fire Calls	392	693	675	815	759	730	863	707	686	910
Fire Average Response Time (min)	4.80	4.60	4.80	4.13	4.07	3.50	4.30	4.59	5.14	4.32
Fire Inspections	136	181	460	329	336	544	691	678	680	688
Public Works										
Lane Miles Maintained	88	88	88	88	88	88	88	88	88	88
Miles of Curb and gutter maintained	176	176	176	176	176	176	176	176	176	176
Parks and recreation										
Park Acres Maintained	119	119	119	119	119	119	119	119	119	119
Athletic Fields Maintained	10	10	10	10	10	10	10	10	10	10
Community Center Memberships	1,320	1,272	1,271	1,063	1,004	988	1,079	1,025	948	844
Program/Class/League Attendance	91,244	41,775	71,542	46,720	65,005	72,000	70,000	70,000	365	30,416
Library										
Number of Programs Offered	853	1,086	1,155	1,144	1,244	1,326	1,844	1,848	1,144	408
Number of School Visits	36	57	63	64	61	49	65	64	6	2
Number of Books in Collection	65,289	73,592	78,990	80,361	79,751	79,283	80,216	80,116	79,172	79,380
Number of Media in Collection	16,700	18,806	20,806	20,719	22,530	23,148	24,499	25,461	24,455	24,482
Electronic Format Materials	54	52	55	52	52	50	49	49	49	-
Ebooks & Audiobooks	11,674	13,524	12,632	20,253	23,765	21,733	22,793	30,169	30,408	29,424
Water and Sewer										
Number of Water Consumers	8,169	8,200	8,196	8,508	8,238	8,248	8,281	8,318	8,328	8,349
Average daily consumption (mil gal)	2	2.3	2.1	2.2	2.2	2.0	2.5	2.0	2.0	2.0
Amt of sewer line inspected (Linear Ft)	6,000	8,000	21,500	9,665	8,000	8,900	19,100	2,100	2,100	2,100

Sources: Various city departments.
Note: Indicators are not available for the general government function.

City of Watauga, Texas **Table 19**

Capital Assets by Function/Program
Last Ten Fiscal Years
(Unaudited)

Function/Program	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Police										
Stations	1	1	1	1	1	1	1	1	1	1
Patrol units	12	12	12	12	12	16	16	16	16	16
Animal Control Facility	1	1	1	1	1	1	1	1	1	1
Fire stations	1	1	1	1	1	1	1	1	1	1
Public Works										
Streets (miles)	88.0	88.0	88.0	88.0	88.0	88.0	88.0	88.0	88.0	88.0
Streetlights	703	703	703	703	703	703	703	781	781	781
Traffic signals	11	12	12	20	20	20	20	20	20	20
Parks and recreation										
Acreage (Developed & Undeveloped)[a]	124	124	124	124	124	124	124	124	124	124
Parks	10	10	10	10	10	10	10	9	9	9
Athletic Fields	10	10	10	10	10	10	10	10	10	10
Senior Centers	1	1	1	1	1	1	1	1	1	1
Community centers	1	1	1	1	1	1	1	1	1	1
Water										
Water mains (miles)	85.0	85.0	88.0	88.0	88.0	88.0	88.0	107.0	107.0	107.0
Fire hydrants	620	620	650	649	649	649	649	654	654	654
Storage capacity (thousands of gallons)	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000
Shared Ground Storage (owned by NRH)	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000
Wastewater										
Storm sewers (miles)	17.4	17.4	17.4	17.4	17.4	17.4	17.4	17.4	17.4	17.4
Sanitary sewers (miles)	85	85	85	85	85	85	85	85	85	85

Sources: Various city departments.

[a] In FY98 & FY99, sold 60 acres to large retail establishment

Federal Awards Section

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Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

The Honorable Mayor and City Council
City of Watauga, Texas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Watauga, Texas (the City), as of and for the year ended September 30, 2021, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated March 14, 2022.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The Honorable Mayor and City Council
City of Watauga, Texas

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Weaver and Tidwell, L.L.P.

WEAVER AND TIDWELL, L.L.P.

Fort Worth, Texas
March 14, 2022

Independent Auditor's Report on Compliance for Each Major Federal Program and Report on Internal Control over Compliance in Accordance with Uniform Guidance

The Honorable Mayor and City Council
City of Watauga, Texas

Report on Compliance for Each Major Federal Program

We have audited City of Watauga, Texas's (City of Watauga) compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of City of Watauga's major federal programs for the year ended September 30, 2021. City of Watauga's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of City of Watauga's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principals, and Audit Requirements for Federal Awards (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about City of Watauga's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of City of Watauga's compliance.

Opinion on Each Major Federal Program

In our opinion, City of Watauga complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended September 30, 2021.

The Honorable Mayor and City Council
City of Watauga, Texas

Report on Internal Control over Compliance

Management of the City of Watauga is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered City of Watauga's internal control over compliance with the types of requirements that could have a direct and material effect on its major federal program as a basis for designing the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of City of Watauga's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Weaver and Tidwell, L.L.P.

WEAVER AND TIDWELL, L.L.P.

Fort Worth, Texas
March 14, 2022

City of Watauga, Texas

Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2021

I. Summary of the Auditor's Results:

Financial Statements

a. An unmodified opinion was issued on the financial statements.

b. Internal control over financial reporting:

Material weakness(es) identified?	_____Yes	X_____No
Significant deficiency(ies) identified that are not considered a material weakness?	_____Yes	X None Reported

c. Noncompliance material to financial statements noted? _____Yes X_____No

Major Programs

d. Internal control over major programs:

Material weakness(es) identified?	_____Yes	X_____No
Significant deficiency (ies) identified that are not Considered a material weakness?	_____Yes	X_____None Reported

e. An unmodified opinion was issued on compliance for major Federal programs.

f. Any audit findings disclosed that were required to be reported in accordance with 2 CFR 200.516(a)? _____Yes X_____No

g. Identification of major program:

Program/Cluster Name	Federal Assistance Listing Number
COVID-19 - Coronavirus Relief Fund (CRF)	21.019
SAFER Grant - Assistance to Firefighters	97.083

h. The dollar threshold used to distinguish between type A and type B programs. $750,000

i. Auditee qualified as a low-risk auditee? _____Yes X_____No

City of Watauga, Texas

Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2021

II. Findings Relating to the Financial Statements Which Are Required To Be Reported in Accordance with *Generally Accepted Government Auditing Standards*.

There were no matters reported

III. Findings and Questioned Costs for Federal Awards

There were no matters reported

City of Watauga, Texas

Summary of Prior Audit Findings

For the Year Ended September 30, 2021

IV. Summary of Prior Year Findings

There were no matters reported

City of Watauga, Texas

Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2021

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal Assistance Listing Number	Pass-through Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF TREASURY			
Passed Through Tarrant County			
COVID-19 - Coronavirus Relief Fund	21.019	133126	$ 460,653
Total U.S. Department of Treasury			460,653
U.S. DEPARTMENT OF HOMELAND SECURITY			
Passed Through Governor's Division of Emergency Management/Homeland Security Grant Program			
SAFER Grant - Assistance to Firefighters	97.083	EMW-2018-FH-00526	381,576
Total U.S. Department of Homeland Security			381,576
Total Expenditures of Federal Awards			$ 842,229

City of Watauga, Texas

Notes to Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2021

1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the City, and is presented on the modified accrual basis of accounting as described in Note 1 to the basic financial statements for the year ended September 30, 2021.

The City elected not to use the de minimis indirect cost rate as allowed in the Uniform Guidance, section 414.

2. Basis of Accounting

The accompanying Schedule of Expenditures of Federal Awards is presented using the modified accrual basis of accounting, which is described in Note 1 to the City's financial statements. Such expenditures are recognized following cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

3. Subrecipients

Of the federal expenditures presented in the schedule, the City provided no federal awards to subrecipients.

4. Non-Cash Assistance

The City did not receive any non-cash assistance during the fiscal year ended September 30, 2021.

5. Loans

At year-end, the City had no loans or loan guarantees outstanding with federal awarding agencies.